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TO AMEND THE PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1965 AND THE APALACHIAN REGIONAL DEVELOPMENT ACT OF 1965

MONDAY, APRIL 11, 1983

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ECONOMIC STABILIZATION,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to call, at 10:40 a.m., in room 2128, Rayburn House Office Building, Hon. John J. LaFalce (chairman of the subcommittee) presiding.

Present: Representatives LaFalce, Lundine, Coyne, Roemer, Levin, Shumway, Wortley, and Bereuter.

Chairman LAFALCE. The Subcommittee on Economic Stabilization will come to order.

Our hearing today is basically on title I of H.R. 10, the National Development Investment Act. If this proposal is enacted into law, it will represent a new charter for the Economic Development Administration, which for almost 20 years has been the Federal Government's primary agency for encouraging business expansion and job creation through direct financial assistance for building and improving public facilities in conjunction with private business development.

In the last few years, we have heard much about the shortcomings of the EDA programs. Some of these criticisms may be valid, particularly those which note that under current EDA eligibility criteria fully 80 percent of the country qualifies for assistance, and there are those who have maintained all along that the Federal Government should stay out of the public works and economic development business and leave it to the States and localities to do the job.

However, I am very much convinced that there is an appropriate role for the Federal Government to play in helping hardpressed communities to engender economic growth and thus benefit the entire country by raising the national level of economic output.

I believe the Federal Government has a responsibility over the long term to provide financial and technical assistance to encourage investment and business expansion. That is what the bill H.R. 10 purports to do, and we want to explore today whether this approach is sensible and workable.

A BILL

To amend the Public Works and Economic Development Act of 1965 and the Appalachian Regional Development Act of 1965.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 TITLE I—NATIONAL DEVELOPMENT

4 INVESTMENT

5 SEC. 101. The Public Works and Economic Develop-
6 ment Act of 1965 is amended to read as follows: "This Act
7 may be cited as the 'National Development Investment
8 Act' ".
9

10 "TITLE I—DEVELOPMENT INVESTMENT

11 ASSISTANCE

12 "FINDINGS AND PURPOSES

13 "SEC. 101. (a) The Congress reaffirms the proposition
14 that this Nation's economic strength is derived from the
15 health of its regions, States, and local communities, both
16 rural and urban, and that national interest dictates the main-
17 tenance and enhancement of economic vitality at the sub-
18 national level.

19 "(b) Congress also recognizes that economic conditions
20 and political relationships change and that legislation must
address these changes.

1 “(c) Congress further affirms that this legislation is de-
2 signed to make government more efficient and responsive by
3 supporting the following principles: leave to private initiative
4 all the functions that citizens can perform privately; use the
5 level of government closest to the community for all public
6 functions it can handle; utilize cooperative intergovernmental
7 agreements where appropriate to attain economical perform-
8 ance and popular approval; reserve national action for residu-
9 al participation where State and local governments are not
10 fully adequate and for the continuing responsibilities that only
11 the National Government can undertake, such as monitoring
12 the manner in which Federal funds are used in order to
13 ensure the carrying out of the activities for which assistance
14 is given.

15 “(d) The private sector remains the ultimate generator
16 of employment and economic growth, but the public sector
17 must reverse decades of infrastructure neglect as a necessary
18 concomitant to private business stability and expansion.
19 State and local governments now have a greater capacity
20 than in previous decades to direct their own destiny, in part
21 because of past Federal efforts; this new capacity must be
22 incorporated in any new legislation at the national level.
23 America’s increased involvement in international trade has
24 brought both challenges to some industries, and opportunities
25 for others; these challenges and opportunities must be ad-

1 dressed. Capital shortages will for the foreseeable future cur-
2 tail the Nation's ability to meet public and private investment
3 needs; it is therefore imperative to marshal the resources of
4 all levels of government and the private sector to create the
5 critical mass of capital and other assets needed to generate
6 growth. Finally, there is a continued need to assist in adjust-
7 ment of change, which is the only permanent feature of our
8 national, regional, and local economies.

9 “(e) In recognition of these constants and changes, Con-
10 gress finds it an appropriate role for the Federal Government
11 to foster the coordination of investments between the public
12 and private sectors and to promote long-term economic de-
13 velopment partnerships at the State and local levels, in both
14 rural and urban areas.

15 “(f) The purposes of this Act are therefore—

16 “(1) to establish a framework within which Feder-
17 al, State, and local governments, and the private sec-
18 tors, in urban and rural areas, can combine their re-
19 sources to achieve economic development in all parts of
20 the Nation;

21 “(2) to help create a strong investment climate
22 which promotes the expansion and retention of job op-
23 portunities for local residents; and removes economic
24 barriers in local areas which impede the free market
25 forces;

1 “(3) to build, rehabilitate, and repair public infra-
2 structure where it is inadequate to support and encour-
3 age private investment in the area;

4 “(4) to recognize and rely upon improved State
5 and local governments’ capacity to direct their own
6 destinies;

7 “(5) to link public and private funds to foster co-
8 ordination of resources between these sectors, in order
9 to leverage the maximum investment in the long-term
10 economic vitality of all areas;

11 “(6) to facilitate local and regional economic ad-
12 justment and economic development diversification in a
13 changing national economy, by assisting State and
14 local efforts to foresee adverse economic changes; to
15 prevent their consequences where possible; to respond
16 as necessary; and to achieve economic self-sufficiency;

17 “(7) to assist in relieving capital shortages and fill
18 local credit gaps which impede private business start-
19 ups and expansion;

20 “(8) to assist communities and industries to re-
21 spond to the opportunities and challenges of a world
22 increasingly knit together by international trade; and

23 “(9) to enhance the economic development of
24 Indian reservations, pursuant to the Federal Govern-
25 ment’s trust responsibilities to Indian tribes.

1 **“ELIGIBLE ACTIVITIES**

2 **“SEC. 102. (a) Upon application of a State, economic**
3 **development district, unit of local government, Indian tribe,**
4 **or private or public nonprofit organization established for**
5 **economic development purposes which meets the eligibility**
6 **criteria hereinafter established by this Act, the Secretary is**
7 **authorized to make a grant for a portion of the cost, as pro-**
8 **vided in section 108 of this Act, of projects submitted in a**
9 **development investment strategy. Development investment**
10 **assistance may be for the following purposes—**

11 **“(1) the construction, repair, rehabilitation and**
12 **improvement of public facilities, including the acquisi-**
13 **tion of land and other public works improvements to**
14 **encourage and support private development;**

15 **“(2) revolving loan funds to promote the establish-**
16 **ment and growth of small businesses and to retain in-**
17 **digenous firms and entrepreneurs which contribute to**
18 **the creation, retention, and expansion of private sector**
19 **jobs;**

20 **“(3) to conduct feasibility studies, site preparation,**
21 **and other technical assistance to prepare for develop-**
22 **ment and to enhance the investment climate; and**

23 **“(4) development activities which address and**
24 **prevent economic dislocation and facilitate economic**
25 **adjustment including assistance to promote qualified**

1 employee ownership organizations and which contrib-
2 ute to economic diversification and long-term economic
3 vitality of the area.

4 “(b) The Secretary shall provide technical assistance
5 and conduct feasibility studies to assist any person to estab-
6 lish a qualified employee ownership organization for purposes
7 of subsection (a)(4).

8 “APPLICANTS

9 “SEC. 103. (a) A State may apply for a grant under this
10 title for an eligible project within any unit of local govern-
11 ment within the State, other than a unit of local government
12 with a population of fifty thousand or more, if such unit meets
13 the requirements of section 105 and is not within the bound-
14 aries of an economic development district.

15 “(b) A unit of local government within a State, other
16 than a unit of local government with a population of fifty
17 thousand or more, which meets the requirements of section
18 105 and is not within the boundaries of an economic develop-
19 ment district may apply for a grant under this title for an
20 eligible project within such unit, but only if such unit consults
21 the State in the preparation of the grant application.

22 “(c) An economic development district may apply for a
23 grant under this title for an eligible project within any unit of
24 local government within such district if such unit meets the
25 requirements of section 105.

1 “(d) A unit of local government within an economic de-
2 velopment district may apply for a grant under this title for
3 an eligible project within such unit if such unit meets the
4 requirements of section 105, but only if such unit consults the
5 economic development district in the preparation of the grant
6 application.

7 “(e) An Indian tribe may apply for a grant under this
8 title.

9 “(f) A unit of local government with a population of fifty
10 thousand or more which meets the requirements of section
11 105 and is located outside an economic development district
12 may apply for a grant under this title for an eligible project
13 within such unit and a private or public nonprofit develop-
14 ment organization representing an area within such unit may
15 apply for a grant under this title for an eligible project within
16 such area, but only if such grant application is approved by
17 such unit before its submission.

18 “(g) In the case of a unit of local government which has
19 a population of fifty thousand or more, is located outside of
20 an economic development district, and does not meet the re-
21 quirements of section 105, such unit may, for an area which
22 meets the requirements of section 105 and is within such
23 unit, apply for a grant under this title for an eligible project
24 within the area and a private or public nonprofit development
25 organization representing an area which meets the require-

1 ments of section 105 and is within such unit may apply for a
2 grant under this title for an eligible project within such area,
3 but only if such grant application is approved by such unit
4 before its submission.

5 "APPLICATION FOR GRANT

6 "SEC. 104. (a) An application for a grant under this title
7 shall include, but need not be limited to—

8 "(1) a certification that the area for which the
9 grant is to be made meets the distress requirements set
10 forth in section 105;

11 "(2) a certification relative to the performance of
12 any responsibilities which the Secretary has agreed to
13 accept under section 306 of this Act; and

14 "(3) a development investment strategy prepared
15 in accordance with section 106.

16 "(b) In approving applications for grants under this title,
17 the Secretary shall consider the purposes of this Act as set
18 forth in section 101 of this Act, including but not limited to
19 the following:

20 "(1) the severity of distress in the area for which
21 the grant is to be made;

22 "(2) the ratio of private sector investments com-
23 mitted in such area to the amount of the grant applied
24 for;

1 “(3) the extent to which the appropriate State and
2 local governments have undertaken or agree to under-
3 take other related actions to encourage economic de-
4 velopment and the expansion of employment opportuni-
5 ties;

6 “(4) the effectiveness of the development invest-
7 ment strategy and the degree to which the proposed
8 project contributes to its implementation (including the
9 strategy’s relationship to economic problems identified
10 in the strategy), expands employment opportunities in
11 the existing labor market, provides incentives to retain
12 indigenous private businesses, expands or improves
13 public facilities, and encourages private investment;

14 “(5) the extent to which the strategy and activi-
15 ties are consistent with State and local goals and con-
16 tribute to long-term economic growth and private
17 sector employment opportunities and establish an over-
18 all strengthened economic and business environment
19 which will be self-sustaining; and

20 “(6) the extent to which assistance under section
21 102(a)(4) will assist a qualified employee ownership or-
22 ganization to obtain majority ownership of a business.

23 **“DISTRESS REQUIREMENTS**

24 **“SEC. 105. (a)** In order to be eligible for a grant under
25 this title, the applicant must certify that any activity or proj-

1 ect to be funded under such grant will be carried out or locat-
2 ed in an area which meets any one of the following criteria:

3 “(1) the area has a per capita income of 80 per
4 centum or less of the national average;

5 “(2) the area has an unemployment rate one per
6 centum above the national average percentage for the
7 most recent twenty-four-month period for which statis-
8 tics are available; or

9 “(3) the area has experienced or is about to expe-
10 rience a sudden economic dislocation resulting in job
11 loss that is significant both in terms of the number of
12 jobs eliminated and the effect upon the employment
13 rate of the area.

14 “(b) Documentation of distress shall be supported by
15 Federal data, when available, and in other cases by data
16 available through the State government. Such documentation
17 shall be accepted by the Secretary unless it is determined to
18 be inaccurate. The most recent statistics available must be
19 used.

20 “DEVELOPMENT INVESTMENT STRATEGY

21 “SEC. 106. (a) Except as provided in subsection (b) of
22 this section, an applicant for a grant under this title shall
23 prepare a development investment strategy for the area for
24 which the grant is sought which—

1 “(1) identifies the economic development problems
2 sought to be addressed by the grant;

3 “(2) identifies past, present, and projected future
4 economic development investments in such area and
5 public and private participants and sources of funding
6 for such investments;

7 “(3) identifies the extent to which the develop-
8 ment investment strategy takes into account—

9 “(A) availability of developable land and
10 space in the area;

11 “(B) public works, public service, and devel-
12 opment facilities in the area;

13 “(C) availability of low-cost capital;

14 “(D) tax policy on investments in the area;

15 “(E) level of skill of the labor force; and

16 “(F) ability of State and units of local gov-
17 ernment to provide financial assistance in the
18 management and implementation of the strategy;

19 “(4) sets forth a strategy for addressing the eco-
20 nomic problems identified in paragraph (1) and dis-
21 cusses the manner in which the strategy will solve
22 such problems;

23 “(5) provides a general discussion of the projects
24 necessary to implement the strategy, an estimate and
25 analysis of the costs and anticipated benefits of imple-

1 menting the strategy, and an estimate of the timetables
2 for completion of such projects; and

3 “(6) provides a summary of public and private re-
4 sources which are expected to be available for such
5 projects.

6 “(b) In any case in which a unit of local government is
7 the eligible applicant under subsection (b) or (d) of section
8 103, the unit of local government shall consult the State or
9 economic development district, respectively, in the prepara-
10 tion of a development investment strategy. In any case in
11 which a private or public nonprofit development organization
12 within a unit of local government is the eligible applicant
13 under subsection (g) of section 103, the unit of local govern-
14 ment shall approve the organization’s development invest-
15 ment strategy.

16 “PRIVATE SECTOR INCENTIVES

17 “SEC. 107. (a) To stimulate small business development
18 and to promote internal economic growth which contributes
19 to an improved local tax base and the creation of permanent
20 employment opportunities, the Secretary is authorized to
21 make grants to an applicant and to a State to establish a
22 revolving loan fund to be used for making loans or guarantee-
23 ing loans to small businesses for initial or working capital, or
24 the purchase, rehabilitation or expansion of facilities or equip-
25 ment. In addition, loans or guarantees may be made to busi-

1 nesses where a relatively small amount of capital is needed to
2 complete financing necessary to retain the business in the
3 area. A grant made to a State under this section shall be
4 made on the condition that the revolving loan fund estab-
5 lished by such State shall be available only in areas in such
6 State which meet the requirements of section 105 of this Act.

7 “(b) No grant for the establishment or recapitalization of
8 a revolving loan fund shall be made for more than
9 \$1,000,000.

10 “(c) No loan or guarantee shall be made from a revolv-
11 ing loan fund which has received a grant under this title
12 unless the financial assistance applied for is not otherwise
13 available from private lenders on terms which in the opinion
14 of the administrator of the revolving loan fund will permit the
15 accomplishment of the project.

16 “(d) Any applicant for a grant for a revolving loan fund
17 shall give assurances that amounts of any loan which are
18 repaid to the revolving loan fund will be available only for
19 the purposes set forth in subsection (a).

20 “(e) No loan or guarantee may be made from a revolv-
21 ing loan fund which has received a grant under this title
22 unless the applicant for such loan or guarantee provides rea-
23 sonable assurance of repayment of the loan.

24 “(f) The Secretary may make additional grants for a
25 portion of the cost, as provided in section 108(b) of this Act,

1 of recapitalization of a revolving loan fund, taking into con-
2 sideration the past performance of such fund.

3 “(g) The grantee of any grant for a revolving loan fund
4 shall administer the fund.

5 “FEDERAL SHARE

6 “SEC. 108. (a) The amount of any grant for a project for
7 any eligible activity described in paragraph (1) of section 102
8 shall be that amount which when added to amounts available
9 from all other sources is sufficient to complete such project,
10 except that in no event shall the amount of any grant under
11 this title exceed 50 per centum of such cost of completing the
12 project as determined at the time of the grant application. No
13 additional funds shall be granted or otherwise made available
14 under this Act for any such project for which a grant has
15 been made under this Act.

16 “(b) The amount of any grant for the establishment of a
17 revolving loan fund under paragraph (2) of section 102 shall
18 not exceed an amount which is equal to the amount of funds
19 available from all other sources for the establishment of such
20 revolving loan fund. The amount of any additional grant for
21 the recapitalization of a revolving loan fund previously estab-
22 lished with a grant under this Act shall not exceed an amount
23 which is equal to one-third of the amount of funds available
24 from all other sources for such recapitalization.

1 local government having a population of 100,000 or more
2 which meets the distress requirements of section 105 of this
3 Act on condition that such unit consult with any economic
4 development district of which it is a part in the preparation of
5 such development investment strategy.

6 “(2) Any State economic development plan prepared
7 with assistance under this section shall be prepared by the
8 State with the active participation of units of local govern-
9 ment and economic development districts located in whole or
10 in part within such State and shall set goals for economic
11 development within such State. Each State receiving assist-
12 ance under this subsection shall submit to the Secretary an
13 annual report on the planning process assisted under this sec-
14 tion.

15 “(3) Any economic development planning by an eco-
16 nomic development district or a unit of local government for
17 which a grant is made under this section shall be consistent
18 with the State economic development plan for the State in
19 which such district or unit is located.

20 “(b) Grants under this section shall be used, to the
21 maximum extent possible, to provide logical coordination of
22 investment for community facilities, economic development,
23 manpower training, and transportation services.

24 “(c) Any applicant for assistance under this section is
25 encouraged to provide project planning, financial analysis,

1 ending September 30, 1984, September 30, 1985, and Sep-
2 tember 30, 1986. Not more than 25 per centum of the
3 amount appropriated under this section for any fiscal year
4 shall be expended to carry out section 107 of this title.

5 **"TITLE II—INVESTMENT STRATEGY, PLANNING,**
6 **EVALUATION, AND DEMONSTRATION**

7 **"INVESTMENT STRATEGY AND PLANNING**

8 **"SEC. 201. (a)(1)** The Secretary is authorized to make
9 grants for economic development planning, including the
10 preparation of development investment strategies under sec-
11 tion 106 of this Act and the payment of administrative ex-
12 penses, to States, economic development districts, Indian
13 tribes, counties which meet the distress requirements of sec-
14 tion 105 of this Act and which are located outside of econom-
15 ic development districts, and those other units of local gov-
16 ernment having populations of fifty thousand or more which
17 meet such distress requirements and which are located out-
18 side of economic development districts. Such planning shall
19 be a part of a comprehensive planning process and shall be a
20 continuous process involving public officials and private citi-
21 zens in analyzing local economies, defining development
22 goals, determining project opportunities, and formulating and
23 implementing a development program. The Secretary is au-
24 thorized to make grants for preparation of a development in-
25 vestment strategy under section 106 of this Act to any unit of

1 marketing, management, feasibility studies, and other techni-
2 cal and financial assistance to communities and neighbor-
3 hoods within its boundaries.

4 "EVALUATION AND DEMONSTRATION

5 "SEC. 202. (a) The Secretary is authorized to conduct a
6 program of evaluation of Federal, State, and local develop-
7 ment investment efforts in order to—

8 "(1) assist in determining the causes of unemploy-
9 ment, underemployment, severe economic adjustment
10 problems, and chronic distress in areas and regions of
11 the United States;

12 "(2) assist in formulating, implementing, or im-
13 proving programs at the National, State, or local levels
14 which are designed to increase employment in private
15 firms, assist depressed industry sectors, or otherwise
16 promote economic development or adjustment.

17 "(b) The Secretary is authorized to conduct any demon-
18 stration program to test the feasibility of new ways to in-
19 crease productivity and growth and the understanding of re-
20 gional and local economies, to foster innovative technology
21 and research in the field of economic development, to match
22 the labor force with projected labor markets, to improve
23 United States competitiveness, or to encourage economic di-
24 versity and regional balance.

1 “(c) Programs authorized under subsections (a) and (b)
2 of this section may be carried out by the Secretary acting
3 through the staff of the Department, in cooperation with or
4 by the provision of funding to other departments or agencies
5 of the Federal Government, or by contract.

6 **“FEDERAL SHARE**

7 **“SEC. 203.** The amount of any grant under section 201
8 shall not exceed 75 per centum of the cost of economic devel-
9 opment planning or for the preparation of a development in-
10 vestment strategy. In determining the amount of the non-
11 Federal share of costs under this section, the Secretary shall
12 give due consideration to all contributions both in cash and in
13 kind, fairly evaluated, including but not limited to space,
14 equipment, and services. In the case of a grant to an Indian
15 tribe under section 201, the Secretary may reduce or waive
16 the non-Federal share.

17 **“OBLIGATION OF FUNDS**

18 **“SEC. 204.** Not later than December 31 of each fiscal
19 year, the Secretary shall obligate for grants under section
20 201, 90 per centum of the funds appropriated for such fiscal
21 year pursuant to this title (other than those funds available
22 for purposes of section 202). The remainder of such funds
23 shall be obligated during such fiscal year only for making
24 grants under section 201 in areas meeting the criteria set
25 forth in section 105(a)(3) of this Act.

1 group which is recognized as an Indian tribe by the
2 Secretary of the Interior;

3 “(4) the term ‘unit of local government’ means
4 any city, county, town, parish, village, or other general
5 purpose political subdivision of a State;

6 “(5) the term ‘small business’ means a business
7 that is independently owned and operated, is not domi-
8 nant in its field of operations, and meets such other cri-
9 teria as the Secretary, after consultation with the Ad-
10 ministrator of the Small Business Administration, may
11 by regulation establish, including but not limited to,
12 numbers of employees and dollar volume of business by
13 industrial classes;

14 “(6) the term ‘Secretary’ means the Secretary of
15 Commerce; and

16 “(7) the term ‘State’ means the several States,
17 the District of Columbia, the Commonwealth of Puerto
18 Rico, the Virgin Islands, Guam, American Samoa, the
19 Trust Territory of the Pacific Islands, and the Com-
20 monwealth of the Northern Marianas.

21 “APPOINTMENT OF ASSISTANT SECRETARY

22 “SEC. 302. The Secretary shall administer this Act
23 with the assistance of an Assistant Secretary of Commerce,
24 created by section 601 of the Public Works and Economic

1 Development Act of 1965. Such Assistant Secretary shall
2 perform such functions as the Secretary may prescribe.

3 "CONSULTATION WITH OTHER PERSONS AND AGENCIES

4 "SEC. 303. (a) The Secretary is authorized from time to
5 time to call together and confer with any persons, including
6 representatives of labor, management, agriculture, and gov-
7 ernment, who can assist in meeting the problems of area and
8 regional unemployment or underemployment.

9 "(b) The Secretary may make provisions for such con-
10 sultation with interested departments and agencies as he may
11 deem appropriate in the performance of the functions vested
12 in him by this Act.

13 "ADMINISTRATION OF ASSISTANCE

14 "SEC. 304. No grant shall be approved under this Act
15 unless the Secretary is satisfied that the project for which
16 Federal assistance is granted will be properly and efficiently
17 administered, operated, and maintained.

18 "POWERS OF THE SECRETARY

19 "SEC. 305. In performing his duties under this Act, the
20 Secretary is authorized to—

21 "(1) adopt, alter, and use a seal, which shall be
22 judicially noticed;

23 "(2) hold such hearings, sit and act at such times
24 and places, and take such testimony, as he may deem
25 advisable;

1 or such other officer of the Department of Commerce as, in
2 accordance with applicable law, may be appropriate.

3 "ANNUAL REPORT

4 "SEC. 308. The Secretary shall make a comprehensive
5 and detailed annual report to the Congress of his operations
6 under this Act for each fiscal year beginning with the fiscal
7 year ending September 30, 1984. Such report shall be print-
8 ed and shall be transmitted to the Congress not later than
9 February 1 of the year following the fiscal year with respect
10 to which such report is made.

11 "PREVAILING RATE OF WAGE

12 "SEC. 309. All laborers and mechanics employed by
13 contractors or subcontractors on projects assisted by the Sec-
14 retary under this Act shall be paid wages at rates not less
15 than those prevailing on similar construction in the locality as
16 determined by the Secretary of Labor in accordance with the
17 Davis-Bacon Act, as amended (40 U.S.C. 276a-276a-5).
18 The Secretary shall not extend any financial assistance under
19 this Act for such project without first obtaining adequate as-
20 surance that these labor standards will be maintained upon
21 the construction work. The Secretary of Labor shall have,
22 with respect to the labor standards specified in this provision,
23 the authority and functions set forth in Reorganization Plan
24 Numbered 14 of 1950 (15 F.R. 3176; 64 Stat. 1267; 5

1 "SAVINGS PROVISIONS

2 "SEC. 307. (a) No suit, action, or other proceedings
3 lawfully commenced by or against the Secretary or Assistant
4 Secretary or any other officer in his official capacity or in
5 relation to the discharge of his official duties under the Public
6 Works and Economic Development Act of 1965, shall abate
7 by reason of the taking effect of the provisions of this Act,
8 but the court may, on motion or supplemental petition filed at
9 any time within twelve months after such taking effect,
10 showing a necessity for the survival of such suit, action, or
11 other proceeding to obtain a settlement of the questions in-
12 volved, allow the same to be maintained by or against the
13 Secretary or Assistant Secretary or such other officer of the
14 Department of Commerce as may be appropriate.

15 "(b) Except as may be otherwise expressly provided in
16 this Act, all powers and authorities conferred by this Act
17 shall be cumulative and additional to and not in derogation of
18 any powers and authorities otherwise existing. All rules, reg-
19 ulations, orders, authorizations, delegations, or other actions
20 duly issued, made, or taken by or pursuant to applicable law,
21 prior to the effective date of this Act, by any agency, officer,
22 or office pertaining to any functions, powers, and duties
23 under the Public Works and Economic Development Act of
24 1965 shall continue in full force and effect after the effective
25 date of this Act until modified or rescinded by the Secretary

1 “(2) Not later than ten days after January 1, and July 1
2 of each year, each recipient shall transmit a report to the
3 Secretary containing all information prescribed under para-
4 graph (1) which relates to all activities carried out during the
5 preceding period relating to grants made to it under this Act.
6 Each report submitted in January of each year shall include
7 an audited statement of all funds spent on the project or un-
8 dertaking during the preceding fiscal year prepared by an
9 independent certified public accountant in accordance with
10 the Standards for Audit of Governmental Organizations, Pro-
11 grams, Activities, and Functions issued by the Comptroller
12 General of the United States.

13 “(b) For the purpose of reviewing the efficiency, econo-
14 my, and effectiveness of programs carried out under the pro-
15 visions of the Act, including audit and examination, the Sec-
16 retary and the Comptroller General of the United States, or
17 any of their duly authorized representatives, shall have
18 access to any books, documents, papers, and records of any
19 recipient, subrecipient, contractor, or subcontractor that are
20 pertinent to assistance received under this Act.

21 “AUTHORIZATION OF APPROPRIATIONS

22 “SEC. 312. There is hereby authorized to be appropri-
23 ated for salaries and administrative expenses to carry out the
24 provisions of this Act \$30,000,000 for the fiscal year ending
25 September 30, 1984, \$35,000,000 for the fiscal year ending

1 U.S.C. 133z-15), and section 2 of the Act of June 13, 1964,
2 as amended (40 U.S.C. 276c).

3 "RECORD OF APPLICATIONS

4 "SEC. 310. The Secretary shall maintain as a perma-
5 nent part of the records of the Department of Commerce a
6 list of applications approved for a grant under this Act, which
7 shall be kept available for public inspection during the regu-
8 lar business hours of the Department of Commerce. The fol-
9 lowing information shall be posted in such list as soon as each
10 application is approved: (1) the name of the applicant, (2) the
11 amount and duration of the grant for which application is
12 made, and (3) the purposes for which the proceeds of the
13 grant are to be used.

14 "RECORDS AND AUDIT

15 "SEC. 311. (a)(1) Each recipient of a grant under this
16 Act shall keep such records as the Secretary shall prescribe,
17 including records which (A) fully disclose the amount and the
18 disposition by such recipient of the proceeds of such grant,
19 the total cost of the project or undertaking in connection with
20 which such grant is given or used, and the amount and
21 nature of that portion of the cost of the project or undertak-
22 ing supplied by other sources, and (B) review the efficiency,
23 economy, and effectiveness of the project carried out under
24 this Act.

1 period ending September 30, 1987 (of such amount not to
2 exceed \$900,000 shall be available for expenses of the Fed-
3 eral cochairman, his alternate, and his staff), and not to
4 exceed \$2,900,000 for the fiscal year ending September 30,
5 1988 (of such amount not to exceed \$450,000 shall be avail-
6 able for expenses of the Federal cochairman, his alternate,
7 and his staff).”.

8 SEC. 204. Paragraph (7) of section 106 of the Appa-
9 lachian Regional Development Act of 1965 is amended by
10 striking out “1982” and inserting in lieu thereof “1988”.

11 SEC. 205. (a) Subsection (g) of section 201 of the Appa-
12 lachian Regional Development Act of 1965 is amended by
13 striking out the period at the end thereof and inserting in lieu
14 thereof a semicolon and the following: “\$215,000,000 for
15 fiscal year 1984; \$234,000,000 for fiscal year 1985;
16 \$250,000,000 for fiscal year 1986; \$270,000,000 for fiscal
17 year 1987; \$289,000,000 for fiscal year 1988; \$312,000,000
18 for fiscal year 1989; \$337,000,000 for fiscal year 1990; and
19 \$364,000,000 for fiscal year 1991.”.

20 (b) Subsection (h)(1) of section 201 of the Appalachian
21 Regional Development Act of 1965 is amended by striking
22 out “70 per centum” and inserting in lieu thereof “80 per
23 centum”. The amendment made by the preceding sentence
24 shall apply to projects approved after March 31, 1979.

1 September 30, 1985, and \$40,000,000 for the fiscal year
 2 ending September 30, 1986. Appropriations authorized under
 3 this Act shall remain available until expended unless other-
 4 wise provided by appropriations Acts. Any contract entered
 5 into pursuant to this Act shall be effective only to such extent
 6 and in such amounts as may be provided in advance in an
 7 appropriation Act.”.

8 TITLE II—APPALACHIAN REGIONAL 9 DEVELOPMENT

10 SEC. 201. This title may be cited as the “Appalachian
 11 Regional Development Act Amendments of 1983”.

12 SEC. 202. The sixth sentence of subsection (a) of section
 13 2 of the Appalachian Regional Development Act of 1965 is
 14 amended by striking out the period at the end thereof and
 15 inserting in lieu thereof the following: “and in severely dis-
 16 tressed and underdeveloped counties lacking resources for
 17 basic services.”.

18 SEC. 203. Subsection (b) of section 105 of the Appa-
 19 lachian Regional Development Act of 1965 is amended by
 20 striking out the period at the end thereof and inserting in lieu
 21 thereof the following: “, and not to exceed \$5,800,000 for
 22 the two-fiscal-year period ending September 30, 1985 (of
 23 such amount not to exceed \$900,000 shall be available for
 24 expenses of the Federal cochairman, his alternate and his
 25 staff), and not to exceed \$5,800,000 for the two-fiscal-year

1 SEC. 206. Subsection (c) of section 214 of the Appa-
2 lachian Regional Development Act of 1965 is amended by
3 striking out "December 31, 1980" and inserting in lieu
4 thereof "October 1, 1988" in the first sentence, and by in-
5 serting "authorized by title 23, United States Code" after
6 "road construction" in the second sentence.

7 SEC. 207. Part B of title II of the Appalachian Region-
8 al Development Act of 1965 is amended by adding at the end
9 thereof the following new section:

10 "SEC. 215. The Commission is authorized to make
11 grants to States and public and nonprofit entities for projects,
12 approved pursuant to section 303 of this Act, which will—

13 "(1) assist in the creation or retention of perma-
14 nent private sector jobs, the upgrading of the region's
15 manpower, or the attraction of private investment;

16 "(2) provide special assistance to severely dis-
17 tressed and underdeveloped counties which lack finan-
18 cial resources for improving basic services;

19 "(3) assist in achieving the goal of making pri-
20 mary health care accessible in the region; or

21 "(4) otherwise serve the purposes of this Act."

22 SEC. 208. Clause (2) of subsection (b) of section 224 of
23 the Appalachian Regional Development Act of 1965 is
24 amended to read as follows: "(2) to enable plant subcontrac-

1 tors to undertake work theretofore performed in another area
2 by other subcontractors or contractors;”.

3 SEC. 209. Section 224 of the Appalachian Regional De-
4 velopment Act of 1965 is amended by adding at the end
5 thereof the following new subsection:

6 “(d) Notwithstanding any other provision of this Act,
7 grants with funds authorized under this Act shall not, after
8 October 1, 1983, exceed 50 per centum of the costs of any
9 project approved under this Act (except projects under sec-
10 tion 201); but such grants may increase the Federal contribu-
11 tion to any project, notwithstanding limitations in other Fed-
12 eral laws, to such percentage as the Commission determines
13 within the limitations in this Act.”.

14 SEC. 210. Section 401 of the Appalachian Regional De-
15 velopment Act of 1965 is amended by adding at the end
16 thereof the following: “In addition to the appropriations au-
17 thorized in section 105 for administrative expenses, and in
18 section 201(g) for the Appalachian development highway
19 system and local access roads, there is authorized to be ap-
20 propriated to the President, to be available until expended, to
21 carry out this Act, \$166,000,000 for the two-fiscal-year
22 period ending September 30, 1985; \$158,000,000 for the
23 two-fiscal-year period ending September 30, 1987; and
24 \$75,000,000 for the fiscal year period ending September 30,
25 1988.”.

1 SEC. 211. Section 405 of the Appalachian Regional De-
2 velopment Act of 1965 is amended by striking out "1982"
3 and inserting in lieu thereof "1988".



Chairman LAFALCE. We have a distinguished list of witnesses today, all of whom have had experience with the EDA and with economic development activities in general. We will be interested in hearing their views about the National Development Investment Act as proposed in H.R. 10—whether it is a workable program, whether it represents the proper role for the Federal Government in promoting economic development, whether it represents the best role, and in particular, whether it can lead to long-term job creation and economic growth and stability in the most economically distressed areas of the country.

Before calling on our first witness, I would ask our ranking minority member, Mr. Shumway, if he wishes to make some opening remarks.

Mr. SHUMWAY. Yes, I do. Thank you, Mr. Chairman.

Since their inception in 1965, EDA programs have been quite popular. This can be hardly surprising. Under current law, as much as 80 percent of the Nation is entitled to EDA assistance.

There are few, if any, Members of Congress who have not successfully helped channel EDA grants to their districts. Although many EDA projects have undoubtedly been worthwhile, the very looseness of EDA eligibility requirements has meant that funds have tended to be directed to those areas with the greatest political clout.

Our colleagues on the Public Works Committee are therefore to be commended for developing H.R. 10, the legislation we are considering today, which attempts to improve upon the current situation. In particular, I refer to the limitation of eligibility from about 80 to 40 percent of the country, the removal of the entitlement feature, the requirement for a 50-percent non-Federal match before assistance can be provided, and enhanced private sector participation.

These improvements notwithstanding, however, I frankly wonder whether EDA has or can work so well that we cannot do without it. Although the economy is rapidly improving, recovery remains threatened by current and projected Federal budget deficits.

In this context, the key question is: Can we afford to authorize \$500 million for each of the next 3 years for specific economic development projects? Might not the Nation as a whole be better off if we do away with programs of this sort, reduce the deficit, and get interest rates down?

I recognize that while this is the position of the administration, it is not widely shared. I personally have not yet made up my mind on the bill before us. I do believe, however, that we must scrutinize H.R. 10 and the EDA itself very carefully before we jump on the bandwagon.

I therefore look forward, Mr. Chairman, to the testimony of our witnesses today.

Chairman LAFALCE. Thank you very much.

Our first witness will be Carlos C. Campbell, the Assistant Secretary for Economic Development.

Before you begin your testimony, Mr. Campbell, I think because it is so brief, rather than questioning you afterwards, I will also call some other witnesses to the stand and have them testify. Perhaps then we can have questions of all of the panelists.

Will your time permit you to do that?

Mr. CAMPBELL. Yes, Mr. Chairman.

Chairman LAFALCE. Please proceed.

STATEMENT OF CARLOS C. CAMPBELL, ASSISTANT SECRETARY FOR ECONOMIC DEVELOPMENT, ACCOMPANIED BY EDWARD M. LEVIN, JR., CHIEF COUNSEL, AND BRIAN B. WHALEN, BUDGET OFFICER, ALL OF THE ECONOMIC DEVELOPMENT ADMINISTRATION

Mr. CAMPBELL. Thank you, Mr. Chairman.

With me I have Mr. Brian Whalen, Budget Officer for the Economic Development Administration, and Mr. Ed Levin, the Chief Counsel.

I appreciate the opportunity to be here. If you have a copy of my testimony, I will let that stand for the record.

I would like to say that the administration remains committed to the orderly phaseout of the Economic Development Administration, and again, we continue to reiterate our commitment to comply fully with the intent of Congress.

I will say in quoting Martin Feldstein, that the most serious problem now facing our economy is the prospect of large budget deficits. Also, I will respectfully invite your attention to the fact that the recession is behind us and we are in a period of economic recovery.

We are predicting about a 4-percent growth in the GNP this year. The most serious concern we have, although we do not support H.R. 10, is just the general notion that increased unnecessary Government spending will undermine the progress that has been enjoyed to date after nearly 2 years of rough sledding.

We have seen a dramatic decline in the interest rates from over 21½ to less than 11 percent, a dramatic drop in inflation from a little over 12 percent to 3.5 percent on an annual basis for the last 12 months. We would like to see economic recovery continue.

I will not provide this for the record, but I would like to say that one of the most enlightening articles that I have read in recent years recently appeared in the Atlantic Monthly. It is called "The Next American Frontier," by Robert Reich. I took a brief course from him over at the White House last December, so I noticed the name and followed this with close scrutiny.

While I do not necessarily share all the views philosophically, he points out something that I think we really need to take into account, and that is the shifting in the global economy in terms of the types of businesses that have been able to succeed, which he refers to as flexible systems producers versus the standard high-volume producers, where we have been losing the market share. He points out that the proportion of U.S. manufacturing capacity employed in production, which had reached 86 percent in 1965, averaged around 80 percent during the 1970s and fell to less than 70 percent by 1982.

Only 3.5 percent of the labor force was jobless in 1969, but thereafter unemployment climbed persistently, reaching almost 11 percent last year. By the 1980s, the core industries of the management era—steel, automobiles, petrochemical companies, textiles, consum-

er electronics, electrical machinery, metal-forming machinery—were in trouble.

He points out the decline in productivity. He points out the kinds of industry that have been growing, the way in which the Japanese and West Germans have leveraged capital investment and skilled labor.

I think if we are going to be serious, I mean totally serious about the economic problems, that we are really committed to jobs, then we would get away from unnecessary Federal intervention, come to grips with what has to be done in our economic sector—talking specifically to the private sector—and capitalize on the strengths that we have. I am not sure that we have been moving in that direction.

We are not naive about the past benefits that have been ascribed to EDA, but we think that we have to go beyond that now and deal systematically with the issues, as opposed to topically, which is the approach that EDA has represented.

Thank you, Mr. Chairman.

Chairman LAFALCE. Thank you very much, Mr. Campbell.

[The prepared statement of Mr. Campbell follows:]

PREPARED STATEMENT OF CARLOS C. CAMPBELL, ASSISTANT SECRETARY FOR ECONOMIC DEVELOPMENT

Mr. Chairman and members of the committee, it is my pleasure to appear before you today to present the views of the Administration on HR-10, the proposed "National Development Investment Act".

This Administration remains committed to the orderly phase out of the Economic Development Administration and cannot offer any support for new legislation which would extend EDA-type activities.

The proliferation of areas eligible for EDA assistance clearly illustrates the futility of attempting to address national economic development problems by funding projects at the local level through federally administered grant and loan programs. Even if a bill could be drafted which restricted assistance to the most distressed areas, the Administration would remain opposed to its enactment. I do not believe that activities of the kind called for in HR-10 have any net job creation impact. The only true impact may be that public capital has replaced private capital or that economic activity and jobs have been shifted from one place to another.

The Federal government should not be directing programs which dictate local development on a project by project basis. The macro policies of the President's recovery program influence economic development from the federal level; we believe that this is the appropriate Federal role. To promote national economic development, we remain convinced that:

- Inflation must be reduced; this has been achieved to a truly dramatic degree by this Administration;
- Interest rates must continue to come down in order to encourage capital formation in the private sector; the achievements here are dramatic also, with the "prime" having been cut almost in half;
- The competitiveness of American industry in world markets must be improved; such Administration initiatives as Export Trading Companies and the Vice-President's Task Force on Regulations will go a long way toward achieving this goal.

The American workforce must be upgraded; the President has proposed programs that will help train American workers for full participation in service and high technology skills which will be essential in the future.

The policies the Administration has in place will expand the number of jobs in the private sector. The Administration expects moderate and steady economic growth over the next five years. This overall growth will increase employment by 2.7 million this year, an additional 2.6 million in 1984, and by almost 16 million by the end of 1988. Again, I would point out that these are new jobs, not just jobs shifted from one area of the country to another.

The President's Economic Recovery Program has brought the recession to an end and put the country on the path to full recovery. To sustain that recovery, we must reduce the size of the deficit; we simply cannot afford to continue funding ineffective programs, such as those contained in HR-10.

Thank you, Mr. Chairman, I will be happy to respond to questions.

Chairman LAFALCE. First of all, your prepared remarks, as brief as they are, three pages, will be included in the entire text of the record.

Second, because of your spontaneous remarks, I am going to depart from the method that I just enunciated about a minute or two earlier. We will question you now, and then we will also ask you to participate in the questioning of all the other panelists, because I simply can't let those remarks go unchallenged.

You say that you were tutored by Robert Reich, in December. You say that you read his Atlantic Monthly article. I ask if you read both March and April or just March?

Mr. CAMPBELL. I read both March and April.

Chairman LAFALCE. Did you read his book, *Minding America's Business*?

Mr. CAMPBELL. No, sir, I have not.

Chairman LAFALCE. Are you suggesting that Mr. Reich either in the Atlantic Monthly article or his December tutoring of you or his book, "*Minding America's Business*," would want to eliminate the Economic Development Administration?

Mr. CAMPBELL. No, that is not the point that I was making.

Chairman LAFALCE. That is the question I am asking.

Mr. CAMPBELL. I am not saying—

Chairman LAFALCE. That is the question I am asking.

Mr. CAMPBELL. I am not saying that that is what the article is saying. I am saying—

Chairman LAFALCE. Would you infer from any of his comments that we should eliminate EDA?

You have said we must go beyond EDA. Well, would his recommendations for going beyond EDA call for its elimination, or its improvement and then going beyond it after it improves?

Does it call for a role on the part of the Federal Government and the revitalization of America?

Mr. CAMPBELL. No, I would say—

Chairman LAFALCE. No, he doesn't?

Mr. CAMPBELL. Mr. Chairman, I would say that if you took his article seriously, you would not need the Economic Development Administration.

Chairman LAFALCE. But I suggest either you didn't read his article or you misread it totally.

Does he say that there ought not to be a role for the Federal Government in the building of the public infrastructure of America? Does he say there ought not to be a role for the Federal Government in fashioning an industrial policy for America, Mr. Campbell?

Mr. CAMPBELL. First of all, Mr. Chairman—

Chairman LAFALCE. I just can't believe that you would have the audacity to come before this committee to cite Robert Reich, and then testify for the elimination of EDA, you want to go beyond EDA, and then have absolutely nothing, no suggestions whatsoever for how we should go beyond EDA, perhaps with the exception of a totally laissez-faire policy on the part of this administration.

Mr. CAMPBELL. First of all, Mr. Chairman, our budget calls for, I believe, \$34-plus billion in infrastructure outside of EDA, and Mr. Stockman invited your attention, I believe, in his letter—I don't

know if he sent it to you; he sent it to Mr. Howard. He cited the funds available from the community development block grant program, \$3.6 billion in fiscal year 1984, and a half billion dollars in the UDAG program for 1984, in responding to this.

I would certainly challenge you and anybody else on your committee in terms of reading it. I have read it. I have highlighted it.

I am saying it is time to face up to reality and deal with the systemic side of the problem, and not to deal artificially with it through a vehical like EDA.

Chairman LAFALCE. If you are serious, Mr. Campbell, in dealing with the problem in some systematic way, some grant way, I would suggest that you and this administration would have to come up with something.

I am also going to suggest you have come up with nothing. There is no industrial policy other than chaos and incoherence on the part of this administration. Certainly nothing has come forward from your office other than the elimination of EDA.

Mr. CAMPBELL. Do you want me to respond?

Mr. Chairman, what you have called chaos and incoherence we would call an economic recovery program that has brought us out of the recession, that has reduced the interest rates, has reduced the rate of growth in Federal spending, and has reduced inflation.

Chairman LAFALCE. Since you cited Robert Reich, do you think he would concur with your evaluation?

Mr. CAMPBELL. Robert Reich will have to speak for himself.

Chairman LAFALCE. We would have him speak before this subcommittee. Would you like to appear at the same time?

Mr. CAMPBELL. It will be my pleasure.

Chairman LAFALCE. You shall do it?

Mr. CAMPBELL. I will be absolutely delighted.

Chairman LAFALCE. You shall do it.

Mr. Shumway.

Mr. SHUMWAY. Mr. Campbell, I appreciate the terseness of your remarks and the pointed responses that you have tried to give to the searching questions of the chairman.

I recognize that the position of the administration on this particular bill, given the vote that was taken in the Public Works Committee, and given the history of this bill, is perhaps politically unpopular, but nevertheless I think there is some merit to thoroughly searching both sides of the question.

I believe when a piece of legislation like this one comes up for reauthorization, as this one does today, it behooves us to go beyond simply asking people who have shared in its benefits in the past to come before this subcommittee, tell us how nice those benefits were, and ask us to continue them. I don't think that is the kind of objective, intellectual analysis that this subcommittee should be searching for when it decides whether this bill should be enacted.

Let me ask just a couple of questions, however. One of the key features of H.R. 10 is the requirement of local participation in project decisionmaking, and then of a 50-percent matching contribution by grant recipients. Private sector involvement is strongly encouraged.

Isn't this consistent with what this administration has launched as New Federalism? In other words, doesn't that particular empha-

sis in this bill go hand in hand with the program which the President has thus far stood for?

Mr. CAMPBELL. Mr. Chairman, Mr. Shumway, I would not say that is necessarily true simply because the threshold cited paralleled the historical thresholds of EDA. Even though the eligibility has been higher in terms of participation, I believe a substantial number of the grant awards have been close to 55 percent after the fact, so it is nothing new.

In terms of the New Federalism that the President had articulated about a year ago, that was for certain categorical programs to go back to the States, where the States would have control over it. So it was local participation under the aegis of the State governments.

Mr. SHUMWAY. You have told us in your statement that EDA assistance does not contribute to an overall improvement of the economy, but merely shifts jobs and resources from one area of the country to another. I think you called this an artificial approach.

While this may be true, how does it differ, say, from the granting of defense contracts, which the Federal Government very much is in the business of doing, and which certainly tend to be concentrated in certain areas? Is there anything fundamentally wrong with attempting to assist distressed areas, those with pockets of unemployment, for example, even if it does mean shifting resources and jobs from more affluent areas?

Mr. CAMPBELL. Well, again, Mr. Chairman, Mr. Shumway, I think our concern really is not so much with intervention as it is with the level of intervention.

In other words, we are saying, we should recognize that the impact of all Federal spending in the general context has a lot to do with economic development, particularly defense, when you look at the concentration of dollars, say, just amongst the top 100 contractors; they receive about 60 percent and the top 10 receive around 30 percent. So any defense contract is going to have a substantial impact, because you are talking about billions of dollars, particularly up at the top.

But when we talk about intervention, the question is whether that is more appropriate within the State or from the Federal to the local level. Our position is that intervention is something that should take place under the office of the Governor within the context of State government.

Mr. SHUMWAY. Finally, let me just ask one more question. I think that all of us in this room would concede that there is very widespread support for H.R. 10 and EDA.

Now, if EDA is something that individuals at all levels of government, as well as many voices in the private sector legitimately want, doesn't our democratic system then require that the program be funded?

In other words, how do we turn our backs to it if there is that kind of unanimous voice asking for it?

Mr. CAMPBELL. Again, Mr. Chairman, Mr. Shumway, I prefaced my remarks by saying that we are committed to complying with congressional intent, and if it is the will of Congress to effect the legislation, obviously, we must. We have to comply with the law through the continuance of the legislative process.

I guess what I am trying to say, and I am a little dumbfounded and perplexed that I would be called—I forgot the word you used, but I think it was “audacity.” We are trying to really level with you and your colleagues on the committee, Mr. Chairman, because I am trying to take a very responsible position. We all know it is a difficult role, and we realize that EDA has been very popular with the members.

You know another person I would like to mention, I don’t know if it is OK to quote people again, but David Birch wrote in a book called “Megatrends,” that out of 19 million new jobs, about 80 percent were in the information area. What we are trying to say is, if we have new jobs in the information area, in the high-tech area, and if we feel, if I feel as administrator that EDA has not been responsible to these trends, and if we feel that we are out of synch, we have a responsibility to share it with you and get it on the record.

If you want to take an approach that you feel is not responsive, we just feel it is our duty to share that with you. I offer that in a respectful manner.

Mr. SHUMWAY. Thank you. I appreciate your frankness.

Chairman LAFALCE. You weren’t suggesting Mr. Birch wrote “Megatrends”?

Mr. CAMPBELL. No, I said David Birch was quoted in “Megatrends”.

Chairman LAFALCE. Thank you.

Mr. Lundine.

Mr. LUNDINE. Mr. Secretary, I cannot resist also talking to you about this. You may regret that you mentioned the very provocative articles by Professor Reich, which appeared in the Atlantic, but I too read them.

My first question is that you concluded by saying that we have to deal systemically with this problem. I gathered you meant the problem of accelerating our change to the kind of high-value-added industries that Professor Reich suggested we must direct our attention to. How do you propose that we make that systemic change to deal with that problem?

Mr. CAMPBELL. Well, first of all I think that we have already done that under the economic recovery program by emphasizing the appropriate steps to reduce the interest rates, reduce inflation, and to reduce regulations, so we make the business environment more attractive and more conducive to growth and development.

Mr. LUNDINE. But, in fact, this article suggests that the Japanese, the West Germans, and others are intervening in their economy, and targeting certain industries and doing so very successfully; does it not?

Mr. CAMPBELL. Yes, he does; in the April issue he also deals with that in terms of the U.S. experience, and says that, in many areas, we are doing the same thing but we are not calling it that.

Mr. LUNDINE. But the fact is that we are losing this battle. Is that not a fact? I mean regardless of whether we are experiencing economic recovery or not, we are positively losing the battle at the present time in trying to shift to these types of industries. Would you not agree?

Mr. CAMPBELL. No, sir. I would not say we are losing. I would say that we have a great sense of awareness, an awakening now. I think part of that is say the Chrysler comeback, not to herald that as being true for the entire industry, but I think that many of our corporations have received the message, and are now moving forward a little bit better. I think we are aware of some of the productivity issues. I do not think there is going to be a quick fix. I do not think we are going to be able to solve all of these problems overnight.

Mr. LUNDINE. It is interesting that the one example you used is a unique situation with Government, labor, and business partnership in constructing that revitalization, but let me go on. You say in your testimony:

Even if a bill could be drafted which restricted assistance to the most distressed areas, the administration would remain opposed to its enactment.

Well, OK, then let me try it another way. What if a bill could be drafted restricted to the kind of internationally traded high-value-added industries that is the subject of the Reich articles? Would you then still remain opposed to it?

Mr. CAMPBELL. Yes, I would, because again I would question whether that is an appropriate role for the Federal Government.

Mr. LUNDINE. And you think that the appropriate level of government to deal with this is the State. You said that the Governors would appropriately deal with it.

Mr. CAMPBELL. If we are talking about directing growth and development to distressed areas, I would say that that should take place through the State as opposed to the Federal Government. That was the point there.

Mr. LUNDINE. It seems to me, therefore, that you are advocating that we not have an industrial policy or whatever you want to call it in America, but that we have 50 industrial policies in America, totally uncoordinated. Do you realistically think we are going to be able to compete with the Germans, the Japanese, the French, or whomever are targeting our industries when we have got 50 possibly conflicting policies in this country?

Mr. CAMPBELL. I am not entirely sure, sir, that I would say they would be conflicting. If we go back about 10 years ago, I think one out of about every five jobs was trade-related. Today I believe it is around 1 out of 15, and the same companies that have their headquarters in one State will have branches in other States. When I was talking about the State intervention, that was directed toward channeling industries or growth in the distressed areas of those States. That was not so much dealing externally with competition in the world market.

Mr. LUNDINE. I am interested in that statistic that you have mentioned. Is the upshot of that statistic that fewer jobs are related to international trade today than at some previous time?

Mr. CAMPBELL. Just the opposite. More.

Mr. LUNDINE. I misunderstood.

Mr. CAMPBELL. Excuse me, I gave it to you the wrong way, I am sorry. I believe it was 1 out of 15 jobs 10 years ago, and today it is 1 out of 5. I am sorry.

Mr. LUNDINE. It just seems to me in conclusion, Mr. Chairman, that it is hard for me to understand a rationale for 50 different policies in this regard when we have got a situation where most large American corporations who are competing operate in far more than one of these States, that they go beyond the reach of those States. While I am not necessarily for the broad unspecified purposes of economic development, it is hard for me to see how we are going to successfully compete in the area that I think you and I are both interested in, if there is absolutely no coordination either between the change we would like to accelerate and dealing with some of the distress that is the natural product of that change.

Thank you, Mr. Chairman.

Chairman LAFALCE. Mr. Coyne.

Mr. COYNE. Mr. Secretary, you had mentioned about dealing in the world of reality, and that it is time that the United States now deal with what is realistic in the country today. Would you agree that 10.5-percent unemployment is the reality of the day?

Mr. CAMPBELL. Absolutely, sir.

Mr. COYNE. Do you really expect any significant reductions say in the next year? Let us just be optimistic, and say 8-percent unemployment. Is that in the projections of your Department?

Mr. CAMPBELL. It is not in our Department's projections to see 8-percent unemployment. I can tell you precisely what we do predict, and that is under the administration's forecasts, we are saying 2.7 million job increase this year, another 2.6 million next, for a total increase of 5.3 million by the end of 1984.

Mr. COYNE. That is in new jobs?

Mr. CAMPBELL. Yes, sir.

Mr. COYNE. Would you agree that the Economic Development Administration's programs in the past have been somewhat successful?

Mr. CAMPBELL. No, sir, I would not say that at all.

Mr. COYNE. You just have no eye for their performance over its history?

Mr. CAMPBELL. By and large, I would say they have not been a success.

Mr. COYNE. I am interested in knowing about the electronics industry and the information industry that you say is going to take up the slack of many of the smokestack industries and automobiles and others. Would you say that that is going to entirely take up the slack of these industries? Many observers feel that even in the best of times, and with the most success that we can have in the high-tech industries, that that still is not going to be enough to take up the slack of the smokestack industries and the automobile-manufacturing industry. What is your thought on that?

Mr. CAMPBELL. What I was saying, Mr. Chairman, Congressman, is that I was just citing statistically where the growth has been. I believe it was 90 percent of all of the new jobs in the last decade or in the seventies was not in the goods-producing area. In other words, citing the growth in the service area; obviously there are some that suggest that these trends will continue. I am not saying that they will pick up the slack or replace all production jobs, but I would say that we have a challenge to recognize the need for re-training. Clearly President Reagan has recognized that, and has ar-

culated that in part in the state of the Union address, and has advocated other types of training programs, for two reasons: so the people who are unemployed can have an opportunity to obtain employment; the people that are currently employed can obtain employment by remaining market-competitive from the standpoint of skill requirements.

Mr. COYNE. I think that is an interesting observation. You know the President was in my district in Pittsburgh last week, and he ballyhooed the idea of the commitment of this administration to retraining in employment. I do not see much of a commitment to retraining when you understand that in 1980 the Federal Government was spending \$8.8 billion for retraining programs, and the President came up here this year and asked for \$3.2 billion. In my judgment that is not a very good commitment to retraining.

Mr. CAMPBELL. Again, Mr. Chairman, Congressman, the commitment to retrain has to be within the context of the need to recognize the importance of reducing overall Federal spending.

Mr. COYNE. So we are going to get the job done by overall declining Federal spending, we are going to put people to work?

Mr. CAMPBELL. Let me just say this for the record, Mr. Chairman and Congressman. I do not know of anybody that has all of the answers. You know you are asking me to solve a Rubik's cube with a blindfold on, and nobody is going to be able to do that. What we can do is at least be candid with you about some mistakes that we feel have been made in the past, and to recognize what some of the trends are, and so perhaps together we can move in a direction that is going to allow us to have the lowest level of unemployment, and to increase our chances for quick, sustained economic recovery.

Mr. COYNE. I think it does this committee and this Congress good to have representatives of the administration come up here and let us know exactly that the administration is not committed to EDA, nor are they committed to any real significant impact in the retraining programs when they come up with figures such as I cited before. Thank you very much.

Chairman LAFALCE. Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman. I have very pragmatic questions.

First of all, Mr. Secretary, perhaps you could provide some answers to eligibility questions I have on the section 103, for example.

I would ask first, are the provisions relating to eligibility pretty much like existing law?

Mr. CAMPBELL. Excuse me, Congressman. They are a little bit more restrictive, but they are not substantially different.

Mr. BEREUTER. I would like to ask a specific question or two on them. I understand of course this is not your bill, but I would like to know how it would be implemented if it becomes your responsibility. In my own State, the areas that are distressed are quite dispersed, not often adjacent, so that the formation of a district is practically impossible. On subsection (b) and (g), is the only distinction between the two that (g) provides for a specific area within a jurisdiction that otherwise meets the eligibility requirements of section 105, whereas section (b), subsection (b), says the whole jurisdiction must meet those qualifications?

Mr. CAMPBELL. Excuse me, Mr. Chairman and Congressman, could I have the chief counsel respond to that?

Mr. BEREUTER. Please.

Mr. CAMPBELL. Because there have been quite a few changes.

Mr. EDWARD LEVIN. I am Chief Counsel for the EDA. Congressman, we have not done a detailed study of the specific provisions of H.R. 10, nor of its predecessor, H.R. 6100, which was introduced last year. We do note that there have been a few amendments adopted by the Subcommittee on Economic Development to H.R. 10, and we understand that more may be considered in the Senate. I think at this time it would be premature for us to attempt to give you a specific reply to a question of that detail.

Mr. BEREUTER. Mr. Chairman and Mr. Secretary, I would like to ask the following questions to be responded to in writing to myself and to the subcommittee.

The first question: Subsection 103(g), does this provide for the eligibility of an area within a unit of local government, if that area meets the eligibility requirements? That is question No. 1.

Question No. 2: Has your agency in the past received applications from Indian tribes that are not nationally recognized by the Secretary of the Interior in accordance with the definition provided on page 22, which is the same as your existing law? In other words, do you receive applications from State-certified Indian reservations that are not recognized by the Secretary of the Interior?

Question No. 3 relates to the fact that today in many States the Indian population within the State is most often an urban Indian population. There are more Indians living in urban centers of metropolitan areas than there are on reservations. The question then is this: Would the extragovernmental organizations that run urban Indian centers be eligible to receive directly assistance for the Indian population they serve? Subquestion 2: Would the unit of government be the applicant? Subquestion No. 3: Could in fact the Indian population spread throughout that city be considered as a whole to meet the unemployment figures? They are all so scattered throughout the metropolitan area that no one area meets the eligibility. Yet the Indian population has an unemployment rate that is astronomical.

Over on page 16 these questions—

Chairman LAFALCE. Mr. Bereuter, I am afraid your time has expired. The questions are excellent, and I would ask you to submit them in writing to Mr. Campbell, copy to the Chair, and then ask Mr. Campbell to give both you and the Chair responses to each and every question.

Mr. BEREUTER. Will we have a chance for another round?

Chairman LAFALCE. Yes.

Mr. BEREUTER. I ask unanimous consent for an additional 1 minute.

Chairman LAFALCE. All right.

Mr. BEREUTER. I can't complete it but I would like to ask for something that you could respond to right now, I believe, and that is on subsection 110. Does the limitation that no more than 60 percent of the funds may be appropriated by May 31 of each fiscal year provide administrative difficulties for the agency based on past experience? Section 110, page 16.

Mr. CAMPBELL. Mr. Chairman, Congressman, this really depends on both the appropriation and authorization cycles. If you say that we have to obligate between 50 to 60 percent of the funds appropriated under the title by May 30, and the remaining funds by September 30, it really varies year to year.

Last year we had sufficient time to avoid the 11th-hour rush in September. This year we are not going to be in that position, and it just depends on a lot of contingencies.

This is only one item, so it is hard for me to respond and give you a clear answer on this, because there are several variables that could go into this.

If we had a reduction in force and then we had to recall people if we had rescissions; it really just depends on the total cycle.

Mr. BEREUTER. I have some concern that 60 percent would indeed provide you some administrative difficulties. I would welcome any reactions you would like to send.

Thank you, Mr. Chairman.

Chairman LaFALCE. Thank you, Mr. Bereuter.

[In regard to the above colloquy, the following correspondence was exchanged between Congressman Bereuter and Mr. Campbell:]

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April 12, 1983

The Honorable Carlos C. Campbell
 Assistant Secretary for Economic Development
 Department of Commerce
 Washington, D. C. 20230

Dear Mr. Secretary:

In order to clarify certain provisions of H.R. 10, the "National Development Investment Act," I would appreciate your written response to the following questions:

- (1) Section 103(g). What would be considered "an area" within a "unit of local government" like a city or county which would be eligible to apply if that area meets the requirements of Section 105?
- (2) Section 103(e). Has the agency in the past received requests for assistance from Indian tribes that are not recognized by the Secretary of the Interior?
- (3) Section 103. Would extra-governmental organizations that serve urban Indians in metropolitan areas be eligible for assistance if the population they serve, scattered though it may be within the metropolitan area, meets the distress requirements of Section 105?
- (4) Section 109. Do you understand Section 109 to mean that aid coming to Indian tribes shall not count against the 15% limitation applied to that state?
- (5) Section 110. Does the requirement that "not more than 60 per centum of the funds" shall be obligated before May 31 of each fiscal year create administrative difficulties? If so, what are they?

Please respond to the Chairman of the Subcommittee as well, so that your comments may be included in the hearing record.

Your prompt attention is most appreciated.

Sincerely,

DOUG BEREUTER
 Member of Congress

cc: Honorable John J. LaFale



UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Economic Development
Washington, D.C. 20230

04 MAY 1983

Honorable Doug Bereuter
House of Representatives
Washington, D. C. 20515

Dear Mr. Bereuter:

Your requested my written response to five questions regarding provisions of H.R. 10, the "National Development Investment Act." Provided below is a restatement of the questions contained in your letter of April 12 followed by my response.

1. Section 103(g). What would be considered "an area" within a "unit of local government" like a city or county which would be eligible to apply if that area meets the requirements of Section 105?

Since the legislation imposes no guidelines, requirements or limitations, an "area" within a "unit of local government" can conceivably be any identifiable geographic location within the unit of local government for which qualifying statistics are available. The determining factor is the availability of statistical information for the "area" defined as within the unit of local government. For income related criteria, Census tract data is often used as a basis for qualifying information. Presumably, 1980 Census tract data related to income is available if needed. For employment related criteria pertaining to areas within cities or counties, State employment security agencies typically provide information on an ad hoc basis to applicants as needed for meeting qualification criteria. It seems reasonable to expect that such information will be available. Most typically, the type of information available for areas which are only parts of cities or counties is unemployment data obtained from State employment agencies.

2. Section 103(e). Has the agency in the past received requests for assistance from Indian tribes that are not recognized by the Secretary of the Interior?

Yes, requests for grant assistance have been received from Indian tribes not recognized by the Secretary of the Interior. EDA has approved requests for public works assistance if the tribe: (1) was recognized as a tribe by the State in which the tribe is located, (2) the State holds land in trust on behalf of the tribe, and (3) the project is located on the tribal land. For urban Indian groups that have no tribal land interests, only requests for technical assistance have been approved.

3. Section 103. Would extra-governmental organizations that serve urban Indians in metropolitan areas be eligible for assistance if the population they serve, scattered though it may be within the metropolitan area, meets the distress requirements of section 105?

Under the provisions of section 103, only if the extra-governmental organization that serves the urban Indians is a public or private non-profit developmental organization representing an "area" that meets the criteria of section 105 can it be eligible for assistance. Since the term "area" is usually defined in terms of geographic location, it does not seem possible that an organization representing members scattered throughout the metropolitan area will be eligible unless the members are in an "area" that meets the qualifications of section 105.

4. Section 109. Do you understand section 109 to mean that aid coming to Indian tribes shall not count against the 15 percent limitation applied to that State?

Yes, it is my understanding that aid to Indian tribes will not count against the 15 percent limitation applied to each State. Section 109 contains language which provides that "Except for expenditures to Indian tribes, not more than 15 per centum of the funds appropriated pursuant to this title may be expended in any one State." We interpret this to mean that expenditures to Indian tribes are not counted against a State's 15 percent limitation.

5. Section 110. Does the requirement that "not more than 60 per centum of the funds" shall be obligated before May 31 of each fiscal year create administrative difficulties? If so, what are they?

No. The requirement that "not more than 60 per centum of the funds" be obligated before May 31 would not create administrative difficulties for EDA.

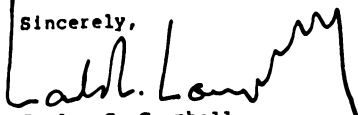
However, H.R. 10 would require the obligation of not less than 50 per centum nor more than 60 per centum of funds prior to May 31 of each fiscal year.

According to FY 82 records, the agency had approved \$20,500,000 of projects by May 31. This represents slightly more than 15 percent of the total approvals of \$129,945,000 for the full fiscal year.

For FY 83, \$3,500,000 has been approved as of this date. This represents less than 2 percent of our appropriation of \$230,000,000 for FY 83.

The agency could meet such a requirement (which is feasible) by authorizing a sufficient number of projects in the previous fiscal year, to have them processed and available for approval in the first half of the next fiscal year.

Sincerely,



Carlos C. Campbell
Assistant Secretary
for Economic Development

Chairman LAFALCE. Mr. Roemer.

Mr. ROEMER. Thank you, Mr. Chairman.

Mr. Secretary, I think I suffer under the same handicap as most members of the committee. I have read Mr. Reich's articles in the Atlantic Monthly also, along with you, and I think you and he agree that this bill is not industrial policy. That might be the extent of the agreement, however, but I think that you are correct in that assessment.

I am somewhat taken aback by the fact that we have to compare this bill with the alternatives for an industrial policy, and the administration seems to have none. Let me point out a couple of examples now in terms of fairplay.

You said in your opening statement, and have responded to questions repeatedly, that a better industrial policy than this might be a reduction in the deficit, implying that interest rates would follow that reduction, and economic recovery would blossom.

Yet our President, our administration, has submitted a budget to this Congress which we Democrats and Republicans didn't think well enough of even to have a vote on the House floor, that called for a deficit in excess of \$185 billion, at a time when you have no industrial policy of your own, you increase foreign aid in your administration's budget by more than \$2 billion.

Now, with that as a beginning point, and your concern about deficits being real, and I share them, and the somewhat hypocritical view of this administration, we are against deficits unless we decide where the money is to be spent, I wonder how you justify the top of page 3 in your statement, this paragraph, where you say, and I quote:

The American work force must be upgraded. The President has proposed programs that will help train American workers for full participation in service in high-technology skills which would be essential in the future.

Now, I spend a great deal of my time, Mr. Secretary, looking at budgets, some that I write, others that are reviewed. I have looked at the administration budget carefully. Mr. Coyne has already pointed out that the budget of your administration seems to deemphasize training, the one legitimate area, according to you, where the Federal Government might play a role.

Now, in fairness, I would like you to respond to that question in these parts: (a) I agree that this bill is not an industrial policy, and I believe Mr. Reich would agree with that also. But, (b) what are your alternatives, and if the Federal Government does have a legitimate place for training, where is it in your budget? What kind of priority do you put on it?

It seems to pale in your emphasis for foreign aid, for example. I can give you the figures. Your foreign-aid bill is \$13.2 billion. Do you spend that much on training American workers?

Mr. CAMPBELL. Well, Mr. Chairman and Congressman Roemer, the reason that we put the statement in here is not only because we are committed, and we recognize this, but we feel that a substantial part of our economic future lies in this area that is going to be what we will call skill intensive.

I don't think it is appropriate for me to respond to the issues of defense or the issues of foreign aid, in all due respect. The deficit

issue is a concern that we have. The need to reduce the rate of growth and the size of the Federal Government is a concern.

I respectfully take exception with you, sir, when you say we don't have an alternative, because we continue to point out that we do have in the community development block grant program under HUD funds available for economic development, and those funds are being used for that purpose.

So I think it is appropriate to suggest to you that we do not advocate duplication in Government programs, but you know, clearly, there is a tradeoff, and I think from the standpoint of responsive leadership, that it is appropriate to respectfully invite your attention to certain trends that we feel that we have a responsibility to share with you.

Mr. ROEMER. I appreciate that, and I do not want to be argumentative with you. I just suggest, as a relative 2½-year newcomer to this scene, that it might serve this Nation and your administration well to put some priority on an industrial policy. You might lead with job training. You haven't done that in your budget, and you are the one that raised the question of deficits, not us.

I would conclude by saying that at some point in this process, since this is the only option we have right now, your administration might serve its purpose better to study this bill in its particulars, and comment before this committee on what is right and what is wrong with it, rather than some blanket indictments.

Specifically, Davis-Bacon is included here. Is that a good idea? We have force-feeding timetables for the Secretary to spend the money. Is that a good idea? We are spending 10 percent of this money on salaries and administrative expense. Is that a good idea?

Thank you, Mr. Chairman.

Chairman LAFALCE. Thank you, Mr. Roemer. Congressman Levin.

Mr. LEVIN. Thank you, Mr. Chairman.

Mr. Secretary, I think we would all agree that the past can be instructive for the future, so if I might concentrate my questions on the past a bit. It might have been interesting to have proceeded as originally suggested by the Chair. I can understand your dilemma.

Chairman LAFALCE. We are going to do both.

Mr. LEVIN. And have had the testimony of everybody, and then questions and answers. Let me refer, if I might, to the testimony that will be forthcoming from the honorable mayor of New Orleans. On page 2 he says, "Building on EDA's successful experience since 1965, in responding to the unique economic circumstances of our Nation's cities."

You are at the opposite end of the spectrum. You call EDA a failure. Tell me a bit more about your conclusion. It is such a striking difference in the earlier statement by someone who has been and is on the firing line of urban problems. Your statement is very categorical. In fact, your testimony has a lot in it.

I would like you to come to Michigan and tell the unemployed that the recession is behind us. It strikes me maybe your view is that we are pulling out of it. To say it is behind us strikes me as almost insensitive, if I might say so, to over 11 million people who are unemployed. But that is another issue.

Tell me about your categorical statement that EDA is a failure.

Mr. CAMPBELL. Well, Mr. Chairman, Mr. Levin, what I am saying is this, that at the time the Economic Development Administration was enacted in 1965, I believe 12½ percent of the population was within areas that were designated for assistance. Since that time, those areas proliferated to encompass over 80 percent of the population. That kind of widespread designation clearly precluded targeting.

In addition to that, the loan guarantee program and direct loan program resulted in a portfolio in excess of \$1 billion with a delinquency rate of over 40 percent. Having carefully examined that portfolio and procedures associated with it, it was clear at the outset that the quality standards were lacking to prevent that type of delinquency rate and default rate.

In terms of particular projects, there are countless industrial parks in America where there are today no tenants. You can ask me to provide it for the record or I can give you some examples now.

Even in the great State of Michigan, unfortunately, there are projects funded in part by EDA that no longer represent any economic development benefits and, in fact, represent a burden to the owners. The Economic Development Administration spent over \$2 million for 12 cemeteries. Again, I question the use of funds like that.

Mr. LEVIN. But tell me—let's talk about Michigan for a minute—list the projects under EDA that have been defective.

Mr. CAMPBELL. Sir, that have been defective?

Mr. LEVIN. Yes.

Tell me about Michigan. You pick out a cemetery project, how many projects have there been in Michigan?

Mr. CAMPBELL. I will have to give you that for the record.

Mr. LEVIN. Well, give me an estimate.

Mr. CAMPBELL. You mean a statement for the total dollars spent by EDA in Michigan?

Mr. LEVIN. Or the number of projects.

Mr. CAMPBELL. I can't really give you an estimate. I would have to go back and look it up.

Mr. LEVIN. Well, don't you think if you sit here and are unable to describe what EDA has done for Michigan, other than picking out one project, and a few industrial parks, that you ought to hesitate before you call it a failure?

Mr. CAMPBELL. We have had over 5,000 to 6,000 projects in the United States.

Mr. LEVIN. How many of them would you say were useful projects?

Mr. CAMPBELL. Useful?

Mr. LEVIN. Yes.

Mr. CAMPBELL. It depends on what you mean when you say useful.

Mr. LEVIN. I am asking you. You called the act ineffective.

Mr. CAMPBELL. What we are saying is that the jobs that are associated with EDA are not jobs that were created, but jobs that were shifted from one area to the other or maintained.

Mr. LEVIN. You are saying EDA created no jobs. It was just a matter of shifting.

I would like you to provide for the record—we could take other States, but take Michigan—your description in a page or two of the history of EDA in Michigan, and support for your statement that there has been simply a shifting of jobs. And the record will be open then for me to—and I don't know the story completely. But I am trying to learn from the past. I think one of the problems is that the past isn't understood and is somewhat misdescribed to argue for conclusions for the future. And I would like a description by you of projects under EDA Michigan, and some qualitative as well as quantitative assessments and material that relates to job creation. Then perhaps we will be in further touch to discuss the history of EDA in Michigan.

Mr. CAMPBELL. Certainly.

Mr. LEVIN. Thank you.

Chairman LAFALCE. Thank you very much, Mr. Levin.

Let me suggest to you a way of proceeding now.

We have Mayor Morial who we would like to hear testimony from, who also has to leave no later than 12. Then we have two other panelists.

With your concurrence, I would like to have Mayor Morial and then have questions of both Mayor Morial and yourself, and then the other two panelists, and questions of the other two panelists and yourself.

The reason is that you are such an important figure with respect to this bill, you would have to implement it. And also, the other individuals are going to be proponents of it, and you are the leading opponent.

I would like to conclude no later than 1 o'clock.

Would your schedule permit you to participate with us?

Mr. CAMPBELL. Absolutely, Mr. Chairman, whatever is your pleasure.

Chairman LAFALCE. Before we do call the mayor, however, I will take the prerogative of the chair to ask a few more questions of you.

First, let me say that in my own judgment there have been successes on the part of EDA, there have been failures on the part of EDA, and I think that is probably a more accurate assessment than just to give a blanket success or failure story. It would be very interesting to see what the overall balance has been.

I am going to invite you to come back before this subcommittee at some future date where we can have an in-depth review of where the EDA has been, and what its total success story has been, and why. I think it is very important.

I am sorry that you did not address the question, though, of this particular bill in greater depth, because it really departs from the general approach that EDA has taken in the past. It is much more focused.

I do think a certain aspect of EDA's past activities are somewhat parallel to the provisions of this bill, and it would have been good if you could have focused in on the success or failure of those portions of EDA's past activities that parallel at least somewhat what

this bill would attempt to do, to give us a better idea of how to proceed.

The jobs bill that President Reagan called for and that he signed into law contains approximately \$100 million that EDA will have to implement, is that correct?

Mr. CAMPBELL. Yes, sir, that is correct.

Chairman LAFALCE. Do you think that that money that the President called for is going to be a waste of money?

Mr. CAMPBELL. Mr. Chairman, the President did not call for that \$100 million. He signed the bill. We will do our best to insure that the money is spent in a manner that reduces the possibility for waste.

Chairman LAFALCE. All right.

Now, what are you doing to implement the spending of that \$100 million?

And also, it is my understanding that you sent a directive to your regional directors on March 25 with instructions for processing applications for utilizing about \$198 million of funds that Congress has appropriated to EDA for fiscal 1983. You have a backlog of applications for rapid processing before September 30. Can they be processed?

Do you have sufficient staff to do the job, along with the job of processing the new \$100 million that you received about 3 weeks ago? If not, will you increase the staff, et cetera?

Mr. CAMPBELL. Are you asking me to respond, Mr. Chairman?

Chairman LAFALCE. Yes.

Mr. CAMPBELL. We are drafting appropriate releases for the Federal Register which we will probably have a clearance this week. We are meeting officials at OMB with respect to some changes that will allow us the flexibility to hire some temporary staff. We are meeting with our regional directors in about 10 days to go over some procedures.

I have assigned appropriate staff to look at ways to expedite the processing, to abbreviate forms and to do everything logistically reasonable to accelerate the decisionmaking process.

Chairman LAFALCE. Thank you.

I have a few more questions that I am going to postpone until we hear from Mayor Morial.

Mayor Morial, would you come to the table, please.

Mayor, I understand your time constraints. You have to leave at approximately what time?

Mayor MORIAL. At least by noon, sir.

Chairman LAFALCE. We will include the entire text of your remarks in the record. You may proceed as you wish, to either read them or summarize them.

STATEMENT OF HON. DUTCH MORIAL, MAYOR, CITY OF NEW ORLEANS, LA.

Mayor MORIAL. Thank you very much, Mr. Chairman and members of the committee.

First let me express my thanks to you for having accommodated me the way you have, and for having accommodated the U.S. Con-

ference of Mayors, and to express my thanks to Mr. Campbell for having yielded to me under the time constraints.

That is a tribute to the Economic Development Administration, that shows something about the success of the EDA.

Mr. Chairman and distinguished members of the committee, thank you for this opportunity to appear before you today in support of H.R. 10, the National Development Investment Act, and the programs of the Economic Development Administration.

I would like to take a few minutes to make a few brief observations today about EDA and its programs from my perspective as a mayor.

We hear a lot today about the misuse of EDA funds, about make-work projects, and dead-end jobs, and maybe some of this criticism is justified. When EDA first began to play a unique role in the city some 15 years ago, the need for economic development had become distressingly obvious in our older urban centers.

Mayors and city staff had up to then fewer basic roles to perform: police and fire protection, garbage collection, other social services. We were all newcomers to economic development. We did not know how to proceed. Adequate competent staff were not available. Mistakes were made as a result. But we have become experts over the years.

We learned how to work in partnership with private industry. Universities began to train people and mayors hired them. We learned how to prepare economic development plans and strategies in response to EDA requirements.

We learned how to use EDA funds to attract private investment, create jobs, and in the process increase revenues to the Federal Government, many times greater than the initial EDA investment.

In New Orleans, for example, we used a little more than \$3 million in EDA funds to put together an investment of more than \$100 million in public and private funds to build a convention center, a project less than 10 minutes away from downtown New Orleans, a project which will serve as a Louisiana pavilion for the Louisiana World Expo 1984. That project will bring in \$1.29 billion in private investment, the convention center alone, and create over 30,000 permanent jobs for an EDA investment of just \$2.3 million for infrastructure.

Now that we have trained the people, now that we have built the competent staff, learned to work in partnership with the private sector, in short, built within our cities economic development expertise, the catalyst for all this and the one indispensable source of funds for its continuance, EDA, would be taken away from us. That is why we support this legislation, Mr. Chairman and members of the committee.

We in the cities have worked hard and invested much to get as far as we have, and need the tools EDA provides to continue basic capital investment programs, now perhaps more than ever before. I would cite one other example where I think EDA has been vital to us. It is within the Office of Economic Development, where we staffed a minority business enterprise unit with a staff employed

EDA funds which administers the city's minority set-aside program.

This unit performs one of the major functions of the Office of Economic Development. This set-aside program provides for 10 percent of the goods and nonprofessional services excluding construction purchased by the city to be designated for bidding solely by small and minority business in the city. Since 1978, over \$80 million in minority contracts have been awarded by the city through the minority business enterprise unit.

I could go on and cite other examples and illustrations of what EDA has meant to my city, and I think other mayors across this Nation would join with us in the litany of the contributions and the successes of the Economic Development Administration.

Thank you very much, Mr. Chairman and members of the subcommittee.

[Mayor Morial's prepared statement follows:]

PREPARED STATEMENT OF HON. DUTCH MORIAL, MAYOR, NEW ORLEANS, LA.

Mr. Chairman, distinguished members of the Committee, my name is Dutch Morial. I am the Mayor of New Orleans, Louisiana. It is a pleasure to share with you my views on H.R.10, the National Development Investment Act. At the outset, let me say that both the U.S. Conference of Mayors and the National League of Cities, in both of which I actively participate, strongly support H.R.10. We hope that your Committee will act quickly to endorse the bill and move it to a vote in the full House. I would like to submit for the record a copy of a resolution adopted by the Conference of Mayors concerning H.R.6100, last year's version of H.R.10.

The Committee's consideration of the National Development Investment Act comes at a time when our cities continue to experience severe financial and economic problems. As we end the first quarter of 1983, the most severe recession in forty years has sharply reduced city governments' revenue growth while exponentially increasing the demands for services and investment. Cities are the first line of defense for the victims of a recession. We bear the burden of feeding, clothing, and sheltering those who have lost their livelihoods. These demands have left cities struggling to maintain even basic capital investment programs so necessary to contribute to a private sector recovery and a stable job base. This is why H.R.10 is such a significant initiative at this time.

I would like to summarize our views of the National Development Investment Act quickly. Before I do, however, let me highlight a technical change which we hope the Committee will recommend.

Section 103 of the bill would restrict the ability of large cities located within Economic Development Districts (EDDs) to apply for grants on behalf of pockets of poverty, or for public or private development entities in such cities to apply for assistance. These cities should enjoy the same

The Committee on Public Works and Transportation already has adopted this change, and I hope that your Committee will adopt it as well when you mark up the legislation.

Let me now summarize my views on the specific provisions of H.R.10.

DEVELOPMENT INVESTMENT ASSISTANCE GRANTS

I strongly support the provisions of the bill providing for Development Investment Assistance Grants. Building on EDA's successful experience since 1965 in responding to the unique economic circumstances of our nation's cities, these grants will improve the ability of cities to use funds for a wide range of eligible activities that combat economic distress, including: the construction, repair, rehabilitation and improvement of public facilities, land acquisition and site preparation, emergency economic adjustment, as well as the capitalization of local government revolving loan funds to assist small businesses.

In addition, I am pleased that the legislation recognizes the need to leverage private sector resources in conjunction with local and federal efforts to improve the physical and economic structure of cities. These interactions and relationships are particularly critical during this period of limited budgets and scarce public resources.

Clearly, local officials must take the lead in fashioning a conscious and aggressive economic role for city government, including the development of a much more precise understanding of the local economy together with policy development, planning and decision-making processes in which the economic dimension of all city government actions are considered.

We in local government have made a strong commitment to giving priority attention to economic development. The provisions of H.R.10 provide the necessary support.

Eligibility. The bill proposes a series of economic indicators covering a wide range of economic distress conditions. A community will qualify for aid by meeting any one of the following criteria:

- A per capita income of 80 percent or less of the national average;
- An unemployment rate 1 percent above the national average for the most recent 24-month period, or
- A sudden economic dislocation resulting in a loss of jobs.

This is a generally sound approach. However, I hope that the committee will ensure that, administratively, assistance is limited to those areas most in need. Broader eligibility criteria, especially in the context of limited funds, weakens the political acceptability of the program and robs it of widespread public support.

DEVELOPMENT INVESTMENT STRATEGY

The requirement that applicants for assistance must requalify for assistance each time they apply and that aid will only be provided to those who prepare and submit a development investment strategy is a good one. These provisions strengthen the legislation by targeting resources to those communities that have identified their economic development goals.

The development investment strategy provides the vehicle for accomplishing these goals by requiring local governments to make use of existing economic resources and to channel growth and investment so that they supplement and support those existing resources that are or can be made viable rather than undercutting or competing with them.

INVESTMENT STRATEGY CAPACITY BUILDING

The planning and investment strategy preparation authorities under H.R.10 reinforce the need for communities to develop capabilities necessary to formulate action-oriented strategies that will guide the investment of economic development resources. I certainly endorse this approach.

RESOLUTION ADOPTED 50TH ANNUAL CONFERENCE, MINNEAPOLIS/ST. PAUL, MINN.,
JUNE 19-23, 1982

ECONOMIC DEVELOPMENT ADMINISTRATION

Whereas, economic development to create and retain jobs in the private sector should be a major goal of national urban policy; and

Whereas, historic patterns of federal investment and tax policies have helped contribute to the decline of employment in many central cities by encouraging new investment elsewhere; and

Whereas, targeted assistance to help provide the public infrastructure on which private sector development is based is a critical need in many cities to offset the historical effects of these tax and investment policies; and

Whereas, unemployment is reaching record levels, with unprecedented concentrations in central cities; and

Whereas, city government should be the main focus of planning and implementation of economic development assistance in cities, Now, therefore, be it

Resolved, That the U.S. Conference of Mayors supports the passage of H.R. 6100, the National Development Investment Act, which would reauthorize the activities and programs of the Economic Development Administration of the Department of Commerce, while substantially altering the agency's focus to emphasize comprehensive economic development planning at the local level.

Chairman LAFALCE. Thank you very much, Mr. Mayor.

Mr. Shumway?

Mr. SHUMWAY. Thank you, Mr. Chairman.

Just a couple of questions, Mr. Mayor. I appreciate the perspective that you bring to the subcommittee as one who is elected from local government. That is likewise my background before coming to Congress from California. But I ask you this question.

As mayor have you had the experience of learning that Federal funds were available for a particular program, but that those funds were for a purpose or maybe they were accompanied by restrictions which deviated from local priorities?

Mayor MORIAL. We have attempted, sir, to shape our programs in conformity with where those Federal funds are available. We have dealt with those categorical funds in a different way than we might deal with block grant funds.

We can adjust and modify those priorities. The basic and fundamental priorities for local government are the traditional ones. Economic development is a relatively new area for local governments to engage in. So, therefore, we have concentrated our efforts on job generation and economic development.

We provided, as EDA required, the comprehensive economic development strategy as our tool. So we fashioned our priorities within that, to conform to those resources that we knew would be available through the Economic Development Administration.

Mr. SHUMWAY. I take it, then, that you have allowed the Federal prerogatives to come in and tell you how you should create jobs and fashion the development of your community as far as the categorical grants available from the Federal Government are concerned?

Mayor MORIAL. To the extent that those have been consistent, we have.

Mr. SHUMWAY. Have there been times when they have not been consistent?

Mayor MORIAL. I don't recall during my tenure as mayor a time when they have not been consistent with what we desired to do as it relates to job creation and our economic development efforts in my community.

Mr. SHUMWAY. Mr. Mayor, you have described some local projects in your testimony, and you described them as I would expect a mayor to do, in very glowing terms. Obviously they are very important projects for your city, and have contributed much to the well-being of your citizens. But it seems to me if those projects are indeed so worthy, if they are destined to accomplish so much, why couldn't they have been funded by either local government, realising again that you have tight priorities to meet, or by private sources?

Why wouldn't local banks come in and say we will set up these particular projects because they will contribute so much to the city of New Orleans?

Mayor MORIAL. To some extent with one of the projects I referred to, the convention center, we did work initially with local banks. And I would illustrate to you how effective I think EDA was in that effort.

That was an effort which was a project whereby we would use UDAG and EDA funds, and used a leverage of a private project which was opened, the Flagship Sheraton Hotel in downtown New Orleans. We were negotiating with the people at HUD for the UDAG; also with Manufacturers Hanover together with Metropolitan Life. We encountered some difficulties. But the project became so attractive to the developers that it was unnecessary for us to use UDAG money or EDA money for that private sector project.

So to some extent we did use private sector leverage for the convention center, because they withdrew their application for UDAG and EDA moneys. Those moneys were then shifted to this public project, which then built a partnership with the private sector, because that project is being partially funded by an increase in local sales taxes dedicated for debt servicing the bonds for that project.

In addition to that component, we went into the State legislature and got capital funds from the State.

So with a composite arrangement of EDA initial moneys serving as a catalyst, we were able to cultivate and build a partnership, a unique partnership with the private sector, local government, and State government to fund a major project which is resulting now in unprecedented downtown construction in the city of New Orleans, and new hotels in the city.

Those hotels, sir, are not being built because of a 6-month Louisiana World Expo. They are being built because we now will have a world-class convention center for which EDA fundings and UDAG served as the catalyst and the initiating financial source.

Mr. SHUMWAY. Thank you, Mr. Mayor.

Chairman LAFALCE. Thank you.

Mr. Lundine?

Mr. LUNDINE. Mr. Chairman, I have no questions.

I would just like to thank the mayor for appearing here and providing a very useful real world perspective.

Mayor MORIAL. Thank you.

Chairman LAFALCE. Mr. Coyne.

Mr. COYNE. Thank you, Mr. Chairman.

Mr. Mayor, the Secretary in his testimony indicated that maybe one of the sources for economic development activity for cities might be the community development block grants; it occurs to me there are so many other needs aside from economic development activities and the use for community development funds.

I wonder if you would comment about your experience with the spending of community development funds that by and large are eaten up by other activities in cities.

Mayor MORIAL. Mr. Coyne, as you have stated in your question, largely community development block grant moneys are attacked unreasonably by the demands within the total community, but by and large by pockets of interest within the total community who come forward with a variety of needed projects and services.

The service component of community development block grants is primarily used as a vehicle to provide housing in the lower income people, housing rehabilitation. We have in my city less than a 1-percent vacancy rate in housing where 25 percent of the housing approximately is below code.

We have perhaps the largest or second largest number of public housing units anyplace in the Nation. So we are trying to stimulate housing rehabilitation and housing development through local housing corporations. We use community development block grant moneys for those. And we use it for a variety of social services—neighborhood community centers, for example. And we do not think it would be wise to abort economic development funds and substitute therein community development block grants.

We think it would be inadequate, it would be inconsistent with the concept and the mission of community development block grant moneys. And we think that a special Economic Development Administration should be available to deal with those matters pertaining particularly to economic development in the much broader sense, to build on the partnership that has developed over the years with the local governments and the Federal Government and the private sector working in unison to stimulate economic development at the local level, and job creation.

Chairman LAFALCE. Mr. Bereuter?

Mr. BEREUTER. I have no questions.

I do appreciate the mayor's testimony and statement. Thank you very much.

Chairman LAFALCE. And now the most distinguished member of our entire subcommittee, Mr. Roemer—whenever we have a witness from Louisiana, Mr. Roemer is certainly our most distinguished member.

Mr. ROEMER. Thank you, Mr. Chairman.

I would like to welcome you to our committee. For those of you who don't know the mayor of New Orleans, you would like him—straight ahead, hard-nosed, and has done one heck of a job for that city.

You are welcome before this committee any time.

A couple of quick and specific questions, mayor, about the bill that we are reviewing.

You mentioned in your opening remarks, or at least your prepared testimony, that the eligibility requirements are satisfactory but, if anything, are too broad. Maybe I misstate you.

You seem to imply that at least administratively we ought to make sure that these limited moneys go to the areas of greatest need.

Could you expand on how that could best be done? Should we do anything statutorily in this law to insure the money is spent where it is most needed?

Mayor MORIAL. Well, the bill as presently drafted would to some extent restrict the ability of large cities located within the economic development districts to apply for grants on behalf of pockets of poverty or for public or private development entities in such cities to apply for assistance. We think that all of those cities should enjoy the same flexibility as cities outside the economic development districts.

We think that there should be some equity, and that should be provided for statutorily to whatever extent or through rules and regulations wherever possible.

Mr. ROEMER. In answer to a question I think from Mr. Coyne, or perhaps someone else, about the community development block grants as opposed to these funds, you implied that one category is not a substitute of another. Is it your position that the Federal Government needs to spend increasing moneys in both areas, EDA and CBDG?

Mayor MORIAL. Very definitely, sir. But don't ask me where the money should come from.

Mr. ROEMER. Thank you very much.

I wanted to pursue that a second. I am not trying to put you on the spot.

Mayor MORIAL. That is all right. You know, I am accustomed to being there.

Mr. ROEMER. No witness, no member of this committee has been able to comfortably, in my opinion, address the question of on the one hand a need for development and investment and on the other hand the size of the deficits with which we grapple.

Speaking for the city of New Orleans, I wonder what would help your city the most over the next 18 to 36 months—sharply lower long-term interest rates as a result of reduced deficit, or continued programs like this?

Mayor MORIAL. Well, that is a tough question. I would think that there should be a combination of the two. And I think the genius reposes within this Nation, through the Congress of the United States and the executive branch of the Government of the United States, to deal with those problems effectively.

The world looks to this Nation. The problems we are discussing about inflation and interest rates and the economy are global. And still the rest of the world looks to the United States for a solution of it. They blame us largely for some of their economic problems, and some of the monetary problems we face in the world today.

But I think the genius reposes within the people of this Nation and its leaders to deal with those matters at the same time, to deal with them effectively, and to make the necessary monetary policy for this country that would deal with the matter of high interest

ates as well as the large deficits we face. Those deficits didn't occur overnight, and we are not going to solve them as rapidly as some would want us to believe that they will be solved.

It is a combination of approaches in my opinion that have to be utilized by those who make the monetary policy for the United States.

Mr. ROEMER. Very good.

I want to thank our witness, Mr. Chairman, for his testimony and just tell him that I have been called a lot of things, but never a genius.

Thank you, Mr. Mayor.

Chairman LAFALCE. Mr. Levin?

Mr. LEVIN. Thank you, Mr. Chairman. Just one question if I might.

If you might tell us briefly from your experience, Mr. Mayor, why should the Federal Government provide funds for local communities as you described it to formulate action-oriented strategies that will guide the investment of economic development resources? Give us an insight.

This is kind of the guts of it in terms of intergovernmental relations and functions. Your perspective on that I think would be most helpful. Some might call it a handout, and might say to you, why not do it yourselves, why do you have to bother with the Federal Government?

Mayor MORIAL. Well, Mr. Levin, we are all tied together in this country. While perhaps the Constitution makes no provision for cities, yet American citizens live in the cities of America. Cities cannot formulate economic policy. We do not have the pervasive legislative capacity to deal with that. We are spokespeople for a small group of American citizens. We are tied together, whether we want to admit it or not, as a Nation. And the cities of America are tied to the Nation.

We have no capacity to deal with economic problems. We cannot affect interest rates. No mayor can do that. We certainly wish we did have the power to do so.

We cannot affect the monetary policy of this country. We can do very little independent of the Federal Government to stimulate economic development. We need the infusion of the Federal Government's capacity and resources to assist us in further developing what I think has been a very successful experiment over the last 15 years, and which should be consistent with the philosophy of this present administration, the development of the private sector and expanding upon the capacity of the private sector to deal with the needs, and to address the needs through the economic resources available at the local level.

Don't place that burden on the cities of America. We cannot cope with it, we do not have the resources nor the capacity, nor do we have the umbrella of authority over the economic fortunes of this nation.

Mr. LEVIN. Thank you.

Thank you, Mr. Chairman.

Chairman LAFALCE. Mr. Wortley?

Mr. WORTLEY. I pass, Mr. Chairman, since I missed the original testimony. Thank you.

Chairman LAFALCE. Mayor, you said you have to leave by 12 I am pleased we are able to let you depart to catch your plane. I thank you very much for your excellent presentation.

Mayor MORIAL. I don't want to run out on Mr. Campbell.

Thank you so much, Mr. Chairman.

Chairman LAFALCE. We would now call upon the remaining witnesses—Mr. Goldstein, Mr. Bergman, and Mr. Page.

We will put the entire text of your remarks, Mr. Bergman and Mr. Goldstein, in the record, as we would Mr. Page's remarks. We would ask you to summarize as you so please.

STATEMENT OF EDWARD M. BERGMAN, ASSOCIATE PROFESSOR OF PLANNING, DEPARTMENT OF CITY AND REGIONAL PLANNING, ACCOMPANIED BY HARVEY GOLDSTEIN, ASSOCIATE PROFESSOR, BOTH OF THE UNIVERSITY OF NORTH CAROLINA, CHAPEL HILL, N.C.

Mr. BERGMAN. Mr. Chairman, I am Edward Bergman. I am here today with my colleague. We are associate professors of city and regional planning in North Carolina, Chapel Hill.

This testimony consists of a favorable and nearly full endorsement of H.R. 10 as seen from the perspective of local economic development officials, more particularly economic development planners. Having said that, we are here today to take the opportunity to comment on some sections which deserve greater prominence or emphasis and to suggest possible improvements in other sections.

The points which we will make are based heavily on the research findings contained in attachments to this testimony and in sources listed on page 17 of the testimony, plus our own direct involvement in educating and advising State and local economic development officials.

We have organized the testimony on the sections of H.R. 10 in the approximate order in which they will appear. I will cover several points under title I and Dr. Goldstein will review title II.

The findings and purposes of H.R. 10 as expressed in section 101(2) properly stress the importance of strong local economics to the strength of the national economy and to the individual vitality of the Nation's constituent communities. The extraordinary shift of language and intent of this bill when compared to the original 1965 Public Works and Economic Development Act reflect the wholly changed circumstances of the 1970's and early 1980's which are referred to in section 101(b).

As we noted in a forthcoming article—to be entered later as attachment 1 to the hearing record:

Local economies in all regions of the United States are undergoing the greatest distress since the Great Depression. Unemployment rates and business failures have reached post-1930's highs, while shrinking tax revenues and reduced capacities to finance needed capital improvements to dangerously worn-out infrastructure have virtually stripped local governments of the few means available to them to alleviate the distress.

The post-World War II incidence of local economic distress is of three general types. National recessions until the early 1970's raised the unemployment rates in many local economies but these recessions were of relatively short duration. More importantly they were squeezed within an otherwise sustained, 25-year period of economic expansion. Many local economies did not experience an economic downturn because the high secular growth rate more than compensated the effects of the recession.

Some local economies did suffer chronic distress as a result of structural changes in important local industries (e.g. New England textiles) and the concomitant disinvestment and capital mobility to other regions. Yet as painful as these dislocations were to the areas experiencing them, they were isolated and exceptions to the general rule of economic growth and prosperity.

A second type of incidence of local economic distress is associated with the so-called urban crises of the 1960's, but it was actually a central city crisis. The loss of central city jobs and tax base to the surrounding suburban jurisdictions meant severe economic distress within parts of the local economy which was neither of short-term duration nor isolated to just a few metropolitan areas.

The third type of economic distress which almost all areas have felt since 1970 differs from previous post-World War II experiences because it results from a series of strong cyclical downturns and from structural changes in the national economy.

The interrelationship between these distinctive influences on local, regional, and national economies should be recognized by economic policymakers at all levels. This in turn suggests that activities envisioned under H.R. 10 are likely to require policy coordination among levels of economic policymaking in such related areas as industrial or urban policy. The language of section 101(c) may require broadening to include or encourage stronger coordinative efforts along these lines.

This bill also accounts for very rapid increases in the potential capacity of local economic development officials to help guide and support their local economies toward a realization of their own destinies—section 101(d). This emerging capacity is acknowledged in attachment 2 submitted for the record.

Particularly valuable are the lessons learned about the risks of piecemeal project funding and the rote preparation of symbolic Overall Economic Development Plans, reports which often functioned as little more than documentation or "boilerplate" for project grants sought.

With the changes in H.R. 10, eligible activities and purposes will need to focus more on coherent local strategies and away from influences external to local economies. This beneficial reorientation should alter considerably the following observations from attachment 2 concerning previous economic development efforts:

Still absent, however, is a coherent sense of how a planner undertakes economic development from the perspective of the local community and its well-being rather than in response to national or corporate imperatives.

In stressing purposes to achieve "self-sufficiency" (section 101(e)(6)), H.R. 10 may unintentionally be employing somewhat misleading language to emphasize very desirable purposes. Rather than self-sufficiency or autarky, either of which imply nearly complete levels of economic independence, we suggest that local economies should be encouraged by H.R. 10 to reduce their dependence on major economic decision centers outside their economies, that is, they should become economically more "autonomous."

The eligible activities enumerated under section 102 are quite distinctive for the simple reason that enterprise types which maintain control and development potential in the local economy are clearly targetted. By stressing the potential value to be placed on developing small and employee-owned businesses, H.R. 10 will help restore a balance which has become tipped dramatically in favor of large, corporate branch plants.

It may be useful to generalize the intent under section 102(b) by suggesting support for—or at least experimentation with—a wide

range of community-based enterprises such as producer co-ops, community development corporations, public enterprise, and so on. This intent should also be generalized to encourage such enterprises in all eligible areas, that is, not only in situations involving economic dislocation and adjustment as stipulated under section 102(a)(4).

A caveat should be acknowledged here. H.R. 10 should strive to support employee- or community-based enterprises in viable lines of industry or markets. The often repeated warnings of "lemon socialism," that is, the needless resuscitation of derelict industries or physical plant with public funds, cannot be ignored. Nor can the potential abuse by investors who see new opportunities to bail out of a losing concern by selling their otherwise unmarketable equities or assets to uninformed employees.

Both "lemon socialism" and "citrus capitalism" are avoidable if sound advice and technical assistance is routinely available to local participants.

We spoke earlier of greater capacity among applicants to conduct sound economic development activities at the local level. However, this is more likely to be the case among organizations with staff and skill in planning a development strategy.

As section 103 now reads, applicants need only demonstrate that they fall within an eligible class of organizations and be located in an area which meets certain distress requirements. If the intention expressed in section 106 to base local economic development on sound strategy is to be fully realized, applicants should be asked to demonstrate some form of long-term capacity for devising, modifying, and implementing such a strategy.

Section 103(f) considers private, nonprofit development organizations as eligible for grant applications, provided such applications are approved by a local unit of government prior to submission. In other subparts of section 103, eligibility is limited to units of government or their agents, all of which are accountable to local citizens.

To assure local accountability as envisioned in section 201(a)(1) and to maintain consistency with similar provisions for qualified employee trusts as specified in section 301(2)(A), some comparable or equivalent provision for the involvement of citizens in planning development strategies might be required of private, nonprofit applicants.

Although the development investment strategy provisions of section 106 quite correctly tie the use of public works funds and infrastructure investments to a well-conceived economic development strategy and plan, we would also like to offer a few observations on desirable investment criteria which this bill might highlight.

First, even though the intent of this legislation does not specifically provide for countercyclical investments, project expenditures will invariably affect the local business cycle. While little in the way of policy guidance is available to determine when local project investments might be optimally timed, we conclude that reliable estimates of the degree of cyclical sensitivity of local economies to national business cycles are available and can be used in conjunction with other criteria to help estimate probable expansionary effects due to the magnitude of allowable infrastructure investment.

Second, investments in local infrastructure should improve the depth or strength of a local economy so that it tends to stimulate new business formation or expansion of existing production. Investments which merely result in the relocation of economic activity from one region or locality to another are inherently wasteful of new investment funds and of existing capital infrastructure.

Third, infrastructure investments which are flexible, adaptable and capable of serving a wide range of potential economic activities should be given priority over industry or sector-specific projects. This is more likely to be the case where local economic development is based on a comprehensive, continuing, and long-term plan for the vitality of the local economy; it is less likely if efforts are project-specific attempts to recruit particular industries with an investment package of tailor-made incentives.

It is also more likely that flexible infrastructure projects result when local economic development officials are aware of available technological innovations. Local economic development officials in North Carolina were surveyed to discover why technological advances were not implemented in the public sector; about 60 percent said that the benefits resulting from technological adoption aren't understood or that local officials have no reliable means to assess the applicability of potential innovations.

Findings from surveys of local economic development planners indicate that greater attention be given to ways of insuring that they are made aware of technological options before strategies are planned and projects are proposed.

The private sector incentives provided under section 107 represent a reasonable use of public funds to support private firms. Since they are used to create revolving loan funds for small business, a permanent resource is placed within local communities where capital needs are greatest. Its permanence and its future claimants place a greater responsibility for long-term stewardship of such resources on applicant agencies. A formal expectation for long-term accounting of loan funds and a followup of lending practices might be included in H.R. 10, particularly some mandated form of local government review.

Access to revolving loan funds under section 107 are intended to yield desirable forms of business development by the private sector. Since funds are targeted on small firms, there is a greater possibility that incentives will create new jobs rather than redistribute existing jobs. However, this prospect is assured only if the firm is truly small by industry standards, as well as being independently owned and operated or not dominant in its field of operations as specified in section 301(2)(B)(5).

We suggest SBA practice in defining size is generally considered imprecise and needn't be relied upon to determine this important definition. Even if definitions of small businesses are improved, revolving-fund agencies should be encouraged to formally consider the job-creation potential of business loans and be discouraged from using funds to induce the mobility of firms from one locality to another.

Finally, funding priorities should be encouraged that favor businesses which offer stable, good paying, safe employment opportunities for the resident labor force; important too are the "multiplier

effects" expected from businesses which purchase local goods and services and the community spillover effects due to land and water consumption, to air and water pollution, to waste production and to burdens or congestion of municipal facilities.

Dr. Goldstein will add his comments.

Dr. GOLDSTEIN. Mr. Chairman, members of the subcommittee, the placement of the preparation of development investment strategies and selection of individual development projects and activities within the context of a comprehensive and continuous planning and evaluation process is perhaps the most important step taken in H.R. 10.

This redirection in local economic development approaches presents both opportunities and challenges for local economic development planners. These challenges include capacity building, the active involvement of citizen groups in the planning process, and coordination and dissemination of research and demonstration results to increase the transferability of successful innovations from one area to another.

One of the bases for a more rational approach to local economic development planning is the assessment of the development prospects of an area economy. We wish to emphasize that it is the anticipated future conditions and problems which a development strategy must address if it is to be successful.

Investment in public infrastructure and area businesses have long-term consequences and must reflect a stream of benefits and costs to the community over a long period of time. As is stated under section 101 of the bill, change is the only permanent feature of our national, regional, and local economies.

The assessment of future development prospects and problems by local planners and Government officials must be based on an understanding of the structural changes and cyclical performance that the particularly local economy is undergoing. These structural changes need to be understood not only in the context of regional shifts of economic activity and the secular movement of the national economy toward a services and information base, but also with respect to an evolving national industry policy and fundamental changes in the international division of labor.

The findings of research we have recently conducted indicate that U.S. metropolitan economies vary considerably in the nature of the long-term structural changes they are undergoing as well as in their respective cyclical performance. This variation is significantly wider than we expected and cannot be explained by simple dichotomies such as Frostbelt or Sunbelt, old or new, large or small, or goods- or services-oriented areas.

These findings, as well as other research experiences, suggest that the ability to forecast the economic future of an area in the current environment is a most difficult task which defies mechanical or cookbook approaches often applied under the OEDP process.

Planners, analysts, and local officials need to learn how to blend published economic data and statistically based projections with qualitative information on the unique behavior and problems of local industries, taking into account qualitative information that private sector people, business leaders, local elected officials, can

bring to bear in the collective understanding of what the realistic future economic development prospects of an area might be.

In short, we are highlighting the challenge that H.R. 10 offers for improving our capacity to foresee future community needs, but we also wish to stress the opportunity for much more effective planning to shape events to meet those needs through more rational and productive investment decisions.

Let me say that there are implications in H.R. 10 for professional training and professional education of the planners and local officials that will administer the programs at the local level. H.R. 10 poses new challenges for graduate programs in planning and specifically current in economic development planned.

There are many officials and planners who are presently working in local and State governments who do have the required capacity, but we suggest that there will be a need for further upgrading of skills of such people. Future practitioners can receive the kind of training which is implied in this bill without the kinds of large institutional grants, that, for instance, the Department of Labor funded under the Manpower Administration. With modest efforts there can be a sufficient number of high quality university-based training programs to provide the supply of skills and understandings among planners and officials that H.R. 10 calls for.

A second related issue raised in the bill is the set of relationships among the identification of local economic problems, the design of a development investment strategy, and the selection of specific development projects. To its credit, H.R. 10 places these planning functions in the most logical and rational order: The strategy is designed to ameliorate identified problems and individual projects are selected to be consistent with the development strategy.

Even this approach has been "officially" endorsed in previous bills, there has been a longstanding tendency for planners and local government officials to disassociate these three logical elements. This has for the most part been unintended, but it does lead to incoherence. That incoherence leads to limited and diminished effectiveness because the individual activities that are funded are less likely to be complementary among themselves or are less likely to achieve scale effects or, even worse, that those projects can work at conflicting or cross purposes.

Because this practice has been the norm, EDA should be prepared to take strong, affirmative actions and provide incentives to local economic development agencies to indeed adopt the planning approach described in section 201 of the bill. This can, in part, take the form of written guides, handbooks, technical assistance and the like.

Failure to enforce the spirit of this part of the bill would, in our view, seriously erode the ability to achieve the purposes of H.R. 10.

The third issue raised in section 201 of the bill that we wish to comment upon is the involvement of private citizens and groups in the planning process. In our view, the active involvement of private citizens and groups should be as broad as possible, not limited to just local corporate leaders.

Apart from the obvious influence which elected public officials exert on local economic development, the next most important influence identified by economic development officials in North Caro-

lina communities was that exercised by major industry leaders. Industrialists were considered to exert influence on economic development policymaking about twice as often as citizen action groups or chambers of commerce, four times as often as workers, and about nine times as often as small business people. Thus, the stress on supporting small business and employee enterprises under title I may depend heavily on opportunities to exercise citizen guidance in the planning process envisioned by title II.

Citizen guidance can improve the planning process itself and its outcomes in several ways. First it can increase the variety of information and range of insights available on the nature and incidence of economic problems facing the community. It can reveal more fully the underlying strengths and weaknesses of the local economy which will pose future economic problems but also present positive opportunities to exploit.

Second, it can lead to a more democratic decisionmaking and community guidance process, which in turn can lead to greater equity in outcomes and greater probability of the strategy being implemented. Associated with this is the expectation of greater public accountability of decisions and actions taken.

Third, citizen guidance can lead to an enhanced capacity to mobilize the community's resources in the face of sudden economic distress such as a major plant closing. We believe that the active involvement of citizens in guiding or shaping the economic future of a community should be seen as a worthy end in itself, and applaud the potentialities that H.R. 10 raises for increasing the breadth and extent of this involvement.

We suggest language be introduced in the bill that would make more explicit the expectation of broad citizen guidance in the economic development planning process.

The evaluation and demonstration component—section 202—recognizes the need for continued research and monitoring of development strategies and investment efforts at all levels of government. The research and monitoring function should help determine what works well and what does not work well under differing sets of local and national economic conditions.

Frequently, successful demonstrations or innovations carried out in one locale are not readily transferable to other areas because conditions in those other areas are not the same as where the successful innovations were carried out.

Dissemination of the findings of demonstrations and assessments of innovations to planners and local officials engaged in economic development planning at all levels of government should be supported by EDA in a very broad way. A commitment to research, in addition to demonstration, will be necessary to meet the stated purposes of this bill.

We simply need to increase our understanding of the processes which lead to unemployment and underemployment, to economic dislocations, and to chronic distress in areas and regions of the United States.

This research should be applied, interdisciplinary, and policy relevant. It should build upon the knowledge and experience of economic development professionals.

Designing and implementing strategies and projects that are foreseen under H.R. 10 and building upon the knowledge and experience of professionals should be done in collaboration with university-based researchers and policy analysts.

EDA can play a critical role in improving the practice of economic development planning by supporting the type of research described above, particularly if it is coordinated with the support of demonstrations in the field and tested against insights gained from careful evaluations of local development investment strategies which should become routine and obligatory.

The research, demonstration, and evaluation components of this legislation should be aimed in general at helping us know what works under what conditions, and how improvements can be steadily made.

Finally, we do not believe that the 75-percent maximum share of the grants devoted to actual economic development planning and the preparation of a development investment strategy as stipulated by section 203 will, in general, pose a constraint or hardship to local planning efforts.

But we do feel that a provision for a waiver, which could be granted by the Secretary under unusual circumstances, be enacted into the bill under a few rare cases where it may be in the best benefits of local planning to have a greater proportion.

Chairman LAFALCE. Thank you very much.

[The joint prepared statement of Mr. Bergman and Mr. Goldstein entitled "Local Planning and the National Development Investment Act" follows:]

PREPARED STATEMENT OF EDWARD M. BERGMAN AND HARVEY A. GOLDSTEIN*

LOCAL PLANNING AND THE NATIONAL DEVELOPMENT INVESTMENT ACT

This testimony consists of a favorable and nearly full endorsement of HR10 as seen from the perspective of local economic development officials, more particularly economic development planners. Having said that, we are here today to take the opportunity to comment on some sections which deserve greater prominence or emphasis and to suggest possible improvements in other sections.

To focus our comments on the bill and make it easier to follow our points, we have organized the testimony on sections of HR10 in the approximate order in which they appear.

TITLE I

The findings and purposes of HR10 as expressed in Sec. 101(2) properly stress the importance of strong local economies to the strength of the national economy and to the individual vitality of the nation's constituent communities. The extraordinary shift of language and intent of this bill when compared to the original 1965 Public Works and Economic Development Act reflects the wholly changed circumstances of the 1970's and early 1980's which are referred to in Sec. 101 (b). As we noted in a forthcoming article (to be entered later as Attachment 1 to the hearing record):

Local economies in all regions of the U.S. are undergoing the greatest distress since the Great Depression. Unemployment rates and business failures have reached post-1930's highs, while shrinking tax revenues and reduced capacities to finance needed capital improvements to dangerously worn-out infrastructure have virtually stripped local governments of the few means available to them to alleviate the distress.

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The post-World War II incidence of local economic distress is of three general types. National recessions until the early 1970's raised the unemployment rates in many local economies but these recessions were of relatively short duration. More importantly they were squeezed within an otherwise sustained, twenty-five year period of economic expansion. Many local economies did not even experience an economic downturn because the high secular growth rate more than compensated the effects of the recession.

Some local economies did suffer chronic distress as a result of structural changes in important local industries (e.g. New England textiles) and the concomitant disinvestment and capital mobility to other regions. Yet as painful as these dislocations were to the areas experiencing them, they were isolated and exceptions to the general rule of economic growth and prosperity. Under these circumstances short-term relief from the federal government was politically feasible while the long term policy of encouraging population migration to growing areas of the type now advocated by the President's Commission for a National Agenda for the Eighties (Hicks 1982) would have been seen as rational.

A second type of incidence of local economic distress is associated with the so-called urban crises of the 1960s, but it was actually a central city crisis. The loss of central city jobs and tax base to the surrounding suburban jurisdictions meant severe economic distress within parts of the local economy which was neither of short-term duration nor isolated to just a few metropolitan areas. Yet there was more optimism than pessimism that the central city distress could be alleviated through legal strategies through central city economic development initiatives, and, in the long term by the rising tide of national economic growth.

The third type of economic distress which almost all areas have felt since 1970 differs from previous post World War II experiences because it results from a series of strong cyclical downturns and from structural changes in the national economy. Since 1970 the national economy has been through four wrenching recessions and three recoveries. At the same time shifts in the sectoral and spatial pattern of capital investment and employment in the U.S. (whose impacts on local economies have been described by Bluestone and Harrison) reflect long-term transformations underway in the international economic system and the U.S. economy's position in it. The recent experience with and prospects for continued simultaneity of strong cyclical behavior and structural change in the national economy transmitted to local economies present local economic analysts and planners with situations in which their forecasts of local economic performance and assessments of the area's development prospects are increasingly unreliable. The fashioning of viable development strategies is dependent, in part, upon an assessment of the area's future's development prospects. But this assessment hinges upon the local economic planner's ability to sort out observable changes and trends in local economic activity: one must recognize those due to structural changes in the local economy and those due to its unique cyclical behavior.

The interrelationship between these distinctive influences on local, regional and national economies should be recognized by economic policy-makers at all levels. This in turn suggests that activities envisioned under HR10 are likely to require policy coordination among levels of economic policy-making in such related areas as industrial or urban policy. The language of Sec. 101(c) may require broadening to include or encourage stronger coordinative efforts along these lines.

This bill also accounts for very rapid increases in the potential capacity of local economic development officials to help guide and support their local economies toward a realization of their own destinies (Sec. 101 (d)). This emerging capacity is acknowledged in Attachment 2 submitted for capacity is acknowledged in Attachment 2 submitted for the record:

Indeed, one could argue that local economic development planning as a field has become newly prominent during this period of rapid economic dislocation. The burgeoning literature on local economic development planning during the seventies era of stagflation, recessions and municipal fiscal crisis attests to a strongly felt need by planners to help guide the development of their local economies. The American Planning Association's recently established Economic Development Division has become notable for its rapid growth and for overflow crowds attending its sessions at recent APA conferences.

Particularly valuable are the lessons learned about the risks of piece-meal project funding and the rote preparation of symbolic Overall Economic Development Plans, reports which often functioned as little more than documentation or "boiler plate" for project grants sought. With the changes in HR10, eligible activities and purposes will need to focus more on coherent local strategies and away from influences external to local economies. This beneficial reorientation should alter considerably the following observations from Attachment 2 concerning previous economic development efforts:

Still absent, however, is a coherent sense of how a planner undertakes economic development from the perspective of the local community and its well-being rather than in response to national or corporate imperatives. The extraordinary displacement of local for federal perspectives has been argued by Yin in terms of local program agency structure, and by Bergman

in terms of forfeiting areawide planning for piecemeal grantsmanship. The immutability of national corporate relocation patterns was posed by the President's Commission [on Urban Policy] which then identified the role of local economies as an obliging accommodation to the national trends. Even within states local governments seem to play negligible--or at best responsive--roles in state level industrial development programs.

In stressing purposes to achieve "self-sufficiency", (Sec. 101(e) (6)), HR10 may be employing somewhat misleading language to emphasize very desirable purposes. Rather than self-sufficiency or autarky, either of which imply nearly complete levels of economic independence, we suggest that local economies should be encouraged to reduce their dependence on major economic decision centers outside their economies, i.e. they should become economically more "autonomous". This shift in emphasis would retain the sense of reduced dependence for the local economy as a whole but also recognize the unavoidable need of individual firms, industries and public agencies to constantly interact with others about them.

The eligible activities enumerated under Section 102 are quite distinctive for the simple reason that enterprise types which maintain control and development potential in the local economy are clearly targetted. As argued in Attachment 2 to this testimony, local economic development invariably implies some sort of policy toward enterprises. For example, a recent study of local economic development planners throughout North Carolina communities reveals a four to one preference for branch plants over small business firms (Bergman and Winders, 1983). By stressing the potential value to be placed on developing small and employee-owned businesses, HR10 will help restore a balance which has become tipped dramatically in favor of large, corporate branch plants. It may be useful to generalize the intent under Sec. 102(b) by suggesting support for--or at least experimentation with--a wide range of community-based enterprises such as producer coops, community development corporations, public enterprise, and so on. Even if most

activities are in fact carried out by conventionally defined small businesses, the very mention of other types of community-based enterprises will stimulate more creative strategies which build indigenous capacity for local initiatives. A caveat should be acknowledged here. HR10 should strive to support employee or community based enterprises in viable lines of industry or markets. The often repeated warnings of "lemon socialism", i.e. the needless resuscitation of derelict industries or physical plant with public funds, cannot be ignored. Nor can the potential abuse by investors who see new opportunities to bail out of a losing concern by selling their otherwise unmarketable equities or assets to uninformed employees. Both "lemon socialism" and "citrus capitalism" are avoidable if sound advice and technical assistance is routinely available to local participants.

We spoke earlier of greater capacity among applicants to conduct sound economic development activities at the local level. However, this is more likely to be the case among organizations with staff and skill in planning a development strategy. As Section 103 now reads, applicants need only to demonstrate that they fall within an eligible class of organizations and be located in an area which meets certain distress requirements. If the intention expressed in Section 106 to base local economic development on sound strategy is to be fully realized, applicants should be asked to demonstrate some form of long-term capacity for devising, modifying and implementing such a strategy. (Additional comments on the nature of organizational planning capacity will be offered later in discussion Section 201).

When surveyed to determine preferences for types of planning capacity, economic development planners in North Carolina communities generally preferred in-house staff capacity to consultants by a three to one ratio, and they preferred federal, state, or regional field office staff assistance to

consultants by a four to one ratio (Bergman and Winders, 1983). This suggests that permanent, accessible sources of planning capacities are preferred by local officials; HR10 might be amended slightly to encourage (if not require evidence of) comparable capacities to carry out planning development strategy.

Section 103(f) considers private, nonprofit development organizations as eligible for grant applications, provided such applications are approved by a local unit of government prior to submission. In other subparts of Section 103, eligibility is limited to units of government or their agents, all of which are accountable to local citizens. To assure local accountability as envisioned in Section 201 (a) (1) and to maintain consistency with similar provisions for qualified employee trusts as specified in Section 301 (2) (A), some provision for the involvement of citizens in planning development strategies might be required of private, nonprofit applicants.

The development investment strategy provisions of Section 106 quite correctly tie the use of public works funds and infrastructure investments to a well conceived economic development strategy and plan. We will comment on the planning process considerations when discussing Section 201 below, but a few observations on desirable investment criteria are appropriate at this point.

First, even though the intent of this legislation does not specifically provide for counter-cyclical investments, project expenditures will invariably affect the local business cycle. Considerable research sponsored by EDA and DOL has demonstrated the difficulty of timing such investments with respect to local peaks and troughs of the business cycle. (See Attachment 1) This means that little in the way of policy guidance is available to determine when local project investments might be optimally timed. We conclude, however, that reliable estimates of the degree of cyclical sensitivity of local economies to national business cycles are available (Attachment 1) and can be used in

conjunction with other criteria to help estimate probable effects due to the magnitude of allowable infrastructure investment.

Second, investments in local infrastructure should improve the depth or strength of a local economy that tends to stimulate new business formation or expansion of existing production. Investments which merely result in the relocation of economic activity from one region or locality to another are inherently wasteful of new investment funds and of existing capital infrastructure. Perhaps a priority for small business ventures will help limit this potential (this is discussed further under Section 107 below.)

Third, infrastructure investments which are flexible, adaptable and capable of serving a wide range of potential economic activities should be given priority over industry or sector-specific projects. This is more likely to be the case where local economic development is based on a comprehensive, continuing and long-term plan for the vitality of the local economy; it is less likely if efforts are project-specific attempts to recruit particular industries with an investment package of tailor-made incentives. It is also more likely that flexible infrastructure projects result when local economic development officials are aware of available technological innovations.

Local economic development officials in North Carolina were surveyed to discover why technological advances were not implemented in the public sector; about 60% said that the benefits resulting from technological adoption aren't understood or that local officials have no reliable means to assess the applicability of potential innovations. By contrast, relatively few officials considered technological innovations in the public sector to be too costly, too esoteric or too inappropriate to local conditions. (Bergman and Winders, 1983.) This suggests that greater attention be given to ways of insuring that local economic development planners are made aware of technological options before strategies are planned and projects are proposed.

The private sector incentives provided under Section 107 represent a reasonable use of public funds to support private firms. Since they are used to create revolving loan funds for small business, a permanent resource is placed within local communities where capital needs are greatest. Its permanence and its future claimants place a greater responsibility for long-term stewardship of such resources on applicant agencies; this should encourage continuous planning and discourage previous tendencies to be attuned to annual grant cycles or preoccupied with pure grantsmanship. A formal expectation for long-term accounting of loan funds and a follow-up of lending practices might be included in HRL0, particularly some mandated form of local government review.

Access to revolving loan funds under Section 107 are intended to yield desirable forms of business development by the private sector. Since funds are targeted on small firms, there is a greater possibility that incentives will create new jobs rather than redistribute existing jobs. However, this prospect is assured only if the firm is truly small by industry standards, as well as being independently owned and operated or not dominant in its field of operations as specified in Section 301 (2) (B) (5). SBA practice in defining size is generally considered imprecise and needn't be relied upon to determine this important definition. Even if definitions of small businesses are improved, revolving fund agencies should be encouraged to formally consider the job creation potential of business loans and be discouraged from using funds to induce the mobility of firms from one locality to another. This would merely reflect what some states already prohibit among the localities within their boundaries; for example, North Carolina statutes prohibits a county from using industrial revenue bonds to attract firms from another county in the state.

Finally, funding priorities should be encouraged that favor businesses which offer stable, good paying, safe employment opportunities for the resident labor force; important too are the "multiplier effects" expected from businesses which purchase local goods and services and the community spillover effects due to land and water consumption, to air and water pollution, to waste production and to burdens or congestion of municipal facilities (Goldstein and Winders, 1983.)

TITLE II

The placement of the preparation of development investment strategies and selection of individual development projects and activities within the context of a comprehensive and continuous planning and evaluation process is perhaps the most important step taken in HR10. This redirection in local economic development approaches presents opportunities to meet many of the purposes of the bill not fully realizable under the old OEDP process. Grantsmanship took precedence over systematic local economic planning based upon careful analysis and coherent policy and strategy design. We can no longer afford to make decisions about infrastructure and public capital improvements that are unrelated to, or inconsistent with, local economic development prospects and needs and incoherent with respect to other sectoral planning and development efforts. At the same time the redirection in local economic development approaches pose new challenges to planners, local government officials, and private citizens, as well as to EDA itself. These challenges include capacity building, the active involvement of citizen groups in the planning process, and coordination and dissemination of research and demonstration results to increase the transferability of successful innovations from one area to

another. We elaborate below on some of these opportunities and challenges posed by HRL0 which we deem to be most critical in order for the purposes of the bill to be realized.

One of the bases for a more rational approach to local economic development planning is the assessment of the development prospects of an area economy. This includes the identification of strengths to build upon and weaknesses to be ameliorated through a development investment strategy. The bill cites the identification of local economic problems and past, present and projected future economic development investments as bases for the preparation of a development investment strategy. We wish to emphasize that it is the anticipated future conditions and problems which a development strategy must address if it is to be successful (See Goldstein, Paulson and Bergman, 1982). Investment in public infrastructure and area businesses have long term consequences and must reflect a stream of benefits and costs to the community over a long period of time. We should assume that the same problems and needs identified at the current time will not be those facing communities ten years from now. As is stated under Section 101 of the bill, change is the only permanent feature of our national, regional, and local economies.

The assessment of future development prospects and problems by local planners and government officials must be based on an understanding of the structural changes and cyclical performance that the particularly local economy is undergoing. These structural changes need to be understood not only in the context of regional shifts of economic activity and the secular movement of the national economy toward a services and information-base, but also with respect to an evolving national industry policy and fundamental changes in the international division of labor.

The findings of research we have recently conducted (See Attachment 1) indicate that U.S. metropolitan economies vary considerably in the nature of the long-term structural changes they are undergoing as well as in their respective cyclical performance. This variation is significantly wider than we expected and can not be explained by simple dichotomies such as Frostbelt or Sunbelt, old or new, large or small, or goods-or services-oriented areas. These findings as well as other research experiences suggest that the ability to forecast the economic future of an area in the current environment is a most difficult task which defies mechanical or cookbook approaches often applied under the OEDP process (Goldstein, Paulson and Bergman, 1982). Planners, analysts, and local officials need learn how to blend published economic data and statistically-based projections with qualitative information on the unique behavior and problems of local industries, the legacies of an area's peculiar historical and cultural development, and political and citizen leadership potentials. Conducted in a systematic way (e.g., scenario or futures analysis), this type of analytic approach can improve the chances of accurately assessing an area's realistic development prospects. This, in turn, increases the probability that a development strategy will be able to meet not only current problems but future needs, and avoid superficially appealing but unproductive investments. In short, we are highlighting the challenge that HRL0 offers for improving our capacity to foresee future community needs, but we also wish to stress the opportunity for much more effective planning to shape events to meet those needs through more rational and productive investment decisions.

A second related issue raised in the bill is the set of relationships among problem identification, the design of a development investment strategy, and the selection of specific development projects. To its credit, HRL0 places these planning functions in the most logical and rational order: the

strategy is designed to ameliorate identified problems and individual projects are selected to be consistent with the development strategy. Even though "officially" endorsed, there has been a longstanding tendency for planners and local government officials to disassociate these three logical elements of the planning process and to pursue one or more elements independently of others. To some extent this behavior has been conditioned by grantsmanship incentives associated with the structure of and requirements for federal government assistance and aid, including many of the programs administered by EDA. A study by one of the present authors (Bergman and Winders, 1983) found that more often than not, practitioners of local economic development (in one southeastern state with a reputation for its relatively sophisticated approach to economic development) did not associate problem identification and strategy formulation with choice of programs or projects. This (unintended) type of incoherence leads to limited and diminished effectiveness because activities are less likely to be complementary, or to achieve scale effects; even worse, projects can work at conflicting or cross purposes, cancelling the potential beneficial effects of each. Because this practice has been the norm, EDA should be prepared to take strong, affirmative actions and provide incentives to local economic development agencies to indeed adopt the planning approach described in Section 201 of the bill. This can, in part, take the form of written guides, handbooks, technical assistance and the like. Failure to enforce the spirit of this part of the bill would, in our view, seriously affect the ability to achieve the purposes of HRL0.

The third issue raised in Section 201 of the bill that we wish to comment upon is the involvement of private citizens and groups in the planning process. Steps in the planning process where desirable degrees of involvement might be assumed include the analysis of the local economy, the identification of economic problems deserving attention, and the definition of development

goals and objectives. In our view, the active involvement of private citizens and groups should be as broad as possible, not limited to just local corporate leaders.

Apart from the obvious influence which elected public officials exert on local economic development, the next most important influence identified by economic development officials in North Carolina communities was that exercised by major industry leaders. Industrialists were considered to exert most influence on economic development policy making about twice as often as citizen action groups or Chambers of Commerce, four times as often as workers, and about nine times as often as small business people (Bergman and Winders, 1983). Thus, the stress on supporting small business and employee enterprises under Title I may depend heavily on opportunities to exercise citizen guidance in the planning process envisioned by Title II.

Active citizen involvement in the public arena where general policy goals are decided, where specific strategies are established and where particular publicly supported development projects and activities are selected and implemented can be referred to as citizen guidance in the local economic development process. (This general approach is presented more fully in Attachment 3).

Citizen guidance can improve the planning process itself and its outcomes in several ways. First it can increase the variety of information and range of insights available on the nature and incidence of economic problems facing the community. It can reveal more fully the underlying strengths and weaknesses of the local economy which will pose future economic problems and present opportunities to exploit. Second, it can lead to a more democratic decision-making and community guidance process which in turn can lead to greater equity in outcomes and greater probability of the strategy being

implemented. Associated with this is the expectation of greater public accountability of decisions and actions taken. Third, citizen guidance can lead to an enhanced capacity to mobilize the community's resources in the face of sudden economic distress such as a major plant closing. We believe that the active involvement of citizens in guiding or shaping the economic future of a community should be seen as a worthy and in itself, and applaud the potentialities that ER10 raises for increasing the breadth and extent of this involvement. We suggest language be introduced in the bill that would make more explicit the expectation of broad citizen guidance in the economic development planning process.

The evaluation and demonstration component (Section 202) recognizes the need for continued research and monitoring of development strategies and investment efforts at all levels of government. The research and monitoring function should help determine what works well and what does not work well under differing sets of local and national economic conditions. Frequently, successful demonstrations or innovations carried out in one locale are not readily transferable to other areas. Again this refers back to the need for carefully analyzing and understanding the behavior, dynamics, and unique conditions of each local economy as a basis for the rational selection of a development investment strategy. Errors of non-transferability point out the need to design demonstrations so that the extent of transferability and generalizability of the results or effectiveness can be assessed.

Dissemination of the findings of demonstrations and assessments of innovations to planners and local officials engaged in economic development planning at all levels of government should be supported by EDA. This type of activity can be highly cost-efficient by minimizing the tendency to "reinvent the wheel" or to repeat inadvertently failures of strategies or activities in other areas and regions.

A commitment to research, in addition to demonstration, will be necessary to meet the stated purposes of this bill. We simply need to increase our understanding of the processes which lead to unemployment and underemployment, to economic dislocations, and to chronic distress in areas and regions of the U.S. This research should be applied, interdisciplinary, and policy-relevant. It should build upon the knowledge and experience of economic development professionals in collaboration with university-based researchers and policy analysts. The approach to economic development planning endorsed in HR10 must be supported by this type of cumulative research findings, but local economic development planners do not need to wait until all the answers are known. Indeed, the ongoing, applied research can and should be informed by the insights gained by planners and local officials in designing, implementing, and evaluating development investment strategies. EDA can play a critical role in improving the practice of economic development planning by supporting the type of research described above, particularly if it is coordinated with the support of demonstrations in the field and tested against insights gained from careful evaluations of local development investment strategies that should become routine and obligatory. The research, demonstration, and evaluation components of this legislation should be aimed in general at helping us know what works under what conditions, and how improvements can be steadily made.

Finally, we do not believe that the 75 percent maximum share of the grants devoted to actual economic development planning and the preparation of a development investment strategy as stipulated by Section 203 will, in general, pose a constraint or hardship to local planning efforts. Yet provision should be made for a waiver which can be granted by the Secretary in unusual circumstances: when a persuasive case can be made that larger

larger percentages of grant funds devoted to planning will have longer term benefits for the community.

CLOSING STATEMENT

In offering this testimony, we endorse the general redirections in local economic development called for in this bill. Our principal reservations are that some of the spirit and intentions of HR10 may not be fully translated into actual practice. We have attempted to point out above where and why the realizations may fall short of the intent and purposes of the bill. In some cases this may be addressed by incorporating stronger language and requirements into relevant sections of the bill. In other cases our concerns could be addressed administratively.

We appreciate the opportunity given to us to present our views on legislation of critical importance to our nation's communities and citizens as well as to us professionally.

SELECTED SOURCES

- Edward M. Bergman and Rebecca M. Winders, Planning Economic Development in North Carolina Communities. Final Report to the North Carolina Board of Science and Technology and the Department of Natural Resources and Community Development, March 1983.
- Harvey A. Goldstein, Nancy A. Paulson, and Edward M. Bergman, Methods and Models for Projecting State and Area Industry Employment. Final Report to U.S. Department of Labor, Employment and Training Administration, May 1982.
- Harvey A. Goldstein and Rebecca M. Winders, The Incidence and Impacts of Industrial Development in North Carolina Communities. Final Report to the North Carolina Board of Science and Technology and the Department of Natural Resources and Community Development, April 1983.

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ATTACHMENTS

- Edward M. Bergman, "Local Economic Development Planning in an Era of Capital Mobility," Carolina Planning, Fall 1981, Vol. 7, No. 2 (Attachment 1).
- Edward M. Bergman, Economic Development in Job Loss Communities: Planning Guide for Citizens, Community Professionals, and Public Officials, Center for Urban and Regional Studies, University of North Carolina, Chapel Hill, 1983 (Attachment 2).

Chairman LAFALCE. Now, Mr. Page.

STATEMENT OF CHRIS PAGE, EXECUTIVE DIRECTOR, ECONOMIC DEVELOPMENT COUNCIL OF NORTHERN VERMONT, SAINT ALBANS, VT.

Mr. PAGE. Thank you, Mr. Chairman.

I am Chris Page, executive director of the Economic Development Council of Northern Vermont, in Saint Albans. I am here today to testify on behalf of the National Association of Development Organizations, NADO.

Chairman LAFALCE. Mr. Page, I remind you that the entire text of your remarks will be included in the record. I ask you to please summarize in about 5 minutes or so, if you could, so that we could begin the question and answer process.

Mr. PAGE. Be happy to do that.

I am pleased to have the opportunity to appear before you today. As the chairman has indicated, the copy of my text has been submitted for the record.

In addition to that, this morning we have delivered to your staff a summary of a specific program, the revolving loan program, and its effectiveness, which we hope to have entered into the record as well.

Essentially what I would like to touch on this morning is the background of economic development districts and the effect that they have had in encouraging economic development in rural areas.

Under the current EDA programs, economic development districts have been established throughout the country in depressed and significantly distressed areas to augment the services provided by local governments, to assist them in packaging economic development projects, and to work with private enterprise.

In Vermont these programs have been particularly successful, for instance, in leveraging private investments, developing economic development projects. One such project in which we have been able to link private and public participation is a regional dairy industrial park. This industrial park was designed to put to work many of the skills that we have available in Vermont, many of the agricultural skills, that were not being utilized as family farms went by the wayside.

This park today is the home of Wyeth Laboratories. They are currently building a \$30 million structure. They will employ 150 people using the agricultural base that we have in that county.

We are here today to testify on behalf of H.R. 10 because we strongly believe that it addresses specific rural problems. It addresses the need for facilities to aid rural communities. It addresses current poverty indication levels, the high incidences of poverty that we are seeing in rural areas.

We are concerned that the payment in kind program that the administration has proposed, PIK, will increase rural unemployment, and we believe that more than ever H.R. 10 will be needed to counteract that effort.

Small cities in rural areas do not benefit significantly from the UDAG program. Statistics from the Department of Housing and Urban Development and the GAO will indicate that.

We feel that in terms of effectively leveraging private dollars to put economic development packages together, EDA and any successor to that agency is vitally essential.

Finally, rural areas lack access to significant capital markets. And the addendum to my testimony that I have submitted to you today talks about EDA's revolving loan fund program and the success that that program has been in northern Vermont in addressing some of those issues.

Like other areas in rural America, the expansion of local and regional economies has been impeded by this inaccessibility to capital markets. The six northern counties of Vermont, our population is about 105,000, are served by 12 local banks and some branches of major financial institutions, but restrictive lending limits and loan service areas often have been a stumbling block in coming up with reasonable financing packages for economic development.

The revolving loan fund, which was designed, as the Mayor of New Orleans indicated, through the comprehensive economic development strategy effort, is one that has been able to effectively address those problems. We found, and I think I make no understatement when I say this, that the economic development strategy significantly changed the whole economic development process in our six-county area.

It brought together for the first time private and public sector participants in the development process and asked them for commitments as well as programs and plans and projects for future development. The result has been that that economic development revolving loan fund today has a portfolio of some 26 loans, that it has leveraged for every public dollar that it spent nearly \$7 in private money. And it has created or retained over 300 jobs.

In many instances, we have found that the revolving loan fund program has made the difference between companies closing their doors and putting people on the unemployment rolls and keeping those jobs in place or expanding.

We have managed to build a fairly significant export base in Northern Vermont, which was no small feat. Approximately 26 percent of the funds that we have spent from the revolving loan fund program have been put into firms that now have export markets.

In addition, we have found that working capital is a significant need in rural areas. It is probably by far the most difficult sort of financing to attract. Lenders that are willing to loan money in rural areas want fixed assets. They want that collateral they can put their hands on, and they want someone to take a subordinated position to provide that firm with working capital to insure that it will make it through.

We have taken that role. It is a role that the board of directors of the revolving loan fund of the district at large and of the community indicated we should play.

In addition to that, we feel that the revolving loan fund does deal with reality. It deals with the small businesses that are the core,

that were identified in our economic development strategy as being the job-creating base of our district.

H.R. 10 provides for revolving loan funds. It provides for traditional public investment in infrastructure. Those are funds that rural areas cannot easily come by. Those are provisions that need to be maintained.

We are not here today to indicate to you that we think that the EDA program was perfect in every way. There always have been losses in Federal programs. There have been failures to achieve goals.

We firmly believe, however, that EDA has a significantly profitable track record, and I use that word "profitable" because that bottom line, those jobs, those tax dollars that come back to our communities, those are profitable. Those moneys are turned into rebuilding infrastructure and maintaining tax bases and creating jobs.

In conclusion, we have worked effectively with EDA programs. I think we can continue to work effectively under the provisions of H.R. 10. We support H.R. 10 because it seems to me to meet the basic needs of the last, less-affluent, small communities that NADO represents.

The bill addresses the needs for physical and institutional improvements in the public sector and, in addition, it will provide capital for private business developments.

On that, I would like to conclude, and I stand prepared to answer questions on economic development districts, the revolving loan fund concept or any others that you may have, Mr. Chairman.

I thank you.

Chairman LAFALCE. Thank you very much, Mr. Page.

[Mr. Page's prepared statement, on behalf of the National Association of Development Organizations, follows:]

**PREPARED STATEMENT OF CHRIS PAGE, ON BEHALF OF THE NATIONAL ASSOCIATION OF
DEVELOPMENT ORGANIZATIONS**

1.

STATEMENT BY CHRIS PAGE, FIRST VICE PRESIDENT, ON BEHALF OF THE NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS BEFORE THE U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS, SUBCOMMITTEE ON ECONOMIC STABILIZATION, APRIL 11, 1983

INTRODUCTION

Mr. Chairman, members of the Subcommittee on Economic Stabilization, I am Chris Page, executive director of the Economic Development Council of Northern Vermont with offices in Saint Albans Vermont. I am testifying today on behalf of the National Association of Development Organizations (NADO).

I am pleased to have the opportunity to appear before this Subcommittee to discuss H.R. 10, the National Development Investment Act and economic development programs which are so important to my region and others throughout the country.

NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

The National Association of Development Organizations was founded in 1967 by a group of economic development districts to promote development in small communities and rural areas. Today our members are multi-county planning and development organizations and other state and local agencies which help local governments and the private sector work together to create and retain jobs.

ECONOMIC DEVELOPMENT DISTRICTS

For thousands of communities development district staffs provide the only professional assistance to governments, businesses and citizens in the field of economic development. In this time of economic recession, districts are needed more than ever.

By working cooperatively through economic development districts, local governments and the private sector can maintain and create jobs with a minimum of control from Washington and maximum local participation. The district approach to job creation has developed a partnership between local governments and the private sector which is exactly what the Administration is supporting.

I would like to quote what a consultant's study of EDA district planning program said:

"The most important impact districts have accomplished has been serving as a catalyst to make political and business leaders realize that economic development is a process that they can and must have influence in that process to ensure it occurs at levels adequate to meet the economic needs of their area, and that the process proceeds more efficiently and frequently when the public and private sector work at it together. In every district there were accomplishments that would not have happened without the 301b program."

Clearly, economic development districts have become an essential part of the institutional structure in much of rural America. Without district staff assistance, many small communities would be worse off than they are.

We are pleased that H.R. 10 recognizes this fact by providing funds for the "institutional infrastructure" necessary to support self sustaining economic development.

There is little doubt that much of our nation's existing physical infrastructure needs reconstruction, rehabilitation, or repair. It is indeed unfortunate that the "system" did not provide for better maintenance and ensure that replacement funds would be put aside over the years. What we are now experiencing in the guise of a physical infrastructure "crisis" is really only the result of institutional failure.

Without an adequate institutional infrastructure -- appropriate fiscal planning, budgeting, and expenditure policies included -- we are doomed to repeat such physical crises on a cyclical basis. We believe the Development Investment Strategy in H.R. 10 offers an opportunity to deal with the need for coordinated development of public and private capital facilities on a life-cycle cost basis. The need for investment strategies is particularly important in rural areas where both public and private resources are scarce.

RURAL DEVELOPMENT PROBLEMS, NEEDS, ISSUES

Some rural areas are growing while others continue to decline. The 1980 decennial census shows that population in rural regions rose by 15.4 per cent between 1970 and 1980. The increase has placed new burdens and pressures on local governments. The demand for services is up, and the need for new jobs is evident. A recent U. S. Department of Agriculture study has shown that many small farmers are able to keep their farms because of outside jobs. The availability of jobs, according to the study, is the most serious economic problem for small farmers. Despite growth in certain regions, there is a lack of employment and opportunity in other rural areas. Consider these facts:

- o Over-Specialization by Economic Sector- Rural areas are often more dependent upon one or two economic activities for the majority of employment. Dominant activities vary from one area to the next. Mining, agriculture, forestry, fishing, and tourism are the usual major employers.
- o Isolation- Rural areas are often more physically and culturally isolated from major markets. Examples include the fact that rural manufacturing firms may not be as aware of changes in consumer habits as firms closer to major consumer areas.
- o Transportation- Many rural areas lack the air and rail facilities to attract and hold business. Adequate transportation facilities are not only absent in many rural areas, but others like secondary highways and bridges are poorly maintained due to a lack of funds.
- o Unemployed are Exported- Unemployment figures for rural areas are often misleading because the unemployed leave the labor force, if not the area, after a period of unsuccessful job searching. Youth outmigration is still a problem.
- o Small Community Tax Base Makes Debt Financing Difficult- Rural communities often lack the ability to build public facilities to attract business on their own. The small tax base of many rural communities prohibits any expansion of existing utilities without outside help.

Of importance to many small towns and rural areas is the fact that many small banks have been selling off (liquidating) their tax-exempt bond portfolios. Small banks have been disenchanted with tax-exempts since their federal tax bracket was reduced by the Revenue Act of 1978. Beginning in 1979, their tax rate was changed to 22 per cent on the first \$100,000 of taxable income, rather than the first \$25,000. The effective result has been that banks with assets between \$5 million and \$20 million have enjoyed tax reduction (from 48% to 22%) which makes tax-exempt bonds less attractive investments. In addition, the Tax Equity and Fiscal Responsibility Act of 1982 imposed corporate minimum tax on banks. Now they may deduct no more than 85 per cent of the interest cost of carrying tax-exempt bonds (i.e., interest cost on debt incurred/continued in order to purchase tax-exempts). This reduced the effective yield (return) for banks on tax-exempts by approximately 55 basis points (0.55 per cent), further decreasing their attractiveness.

- o Historic Demand Shows Greater Need in Rural Areas for Basic Facilities Aid- Rural areas have historically sought different types of federal assistance than urban areas. In 1978, non-metropolitan areas received \$49 more per capita in community facilities assistance, \$40 more per capita in business and industrial development, and \$21 more per capita in natural resources outlays than urban areas. Urban areas received \$224 more per capita in defense contracts, \$66 more per capita in housing, and \$33 per capita more in transportation. (U.S. Dept. of Agriculture, 1980.)
- o Poverty Indicators Higher for Rural Areas- According to the White House Rural Development Background Paper "Social and Economic Trends in Rural America":
 1. Incidence of poverty is significantly higher in rural areas than in urban areas (35 per cent of nation's poor are rural).
 2. Rural people experience poorer health than urban people. Also, there is a shortage of health services and medical care in rural areas.
 3. Incidence of substandard housing continues to be more than three times as high in rural areas as it is in urban areas.
 4. Per capita income in rural areas lags behind the national averages for per capita income.
- o Rural Areas Lack Capital Markets- A February, 1981 study done for the U.S. Department of Commerce, "An Empirical Analysis of Unmet Demand in Domestic Capital Markets in Five U.S. Regions," reported:
 1. Unmet capital demand is highest in rural areas.
 2. Small firms have the most difficulty obtaining capital, and
 3. Independent firms are at a disadvantage in capital markets.
- o Payment-In-Kind Program Will Cause Rural Unemployment- USDA's Economic Research Service confirms that the Department's crop reduction program based on payments-in-kind (PIK) will add as much as three per cent to farm-related unemployment.

The withholding of 82.3 million acres from planting will mean shorter work weeks, lay-off and job elimination in agriculture-related industries, affecting at least 50,000 workers. The program may cut farm-supplier revenues by \$5.75 billion as farmers' reduce purchases of seed, fertilizer, pesticides, fuel machinery, equipment, and direct services such as repairs. Ironically, at the same time farmers' cash crop receipts may fall as much as \$11 billion below the 1982 level, further reducing business incomes in rural areas. The result may be exacerbation of the adverse economic impacts already produced by lowered farm incomes during the past three years and two national recessions during the last five years.

- o GAO Confirms Small City UDAG Problems- The General Accounting Office has documented the fact that UDAG-eligible small cities with population of less than 2,500 rarely apply and even more rarely receive funding. Although eligible communities under 2,500 population account for 79.5 per cent of the total, they account for only 15.9 of UDAG awards and only 22.9 percent of UDAG applications. When they do apply, their success rate is only 37.4 percent compared to 65 percent for communities over 10,000 population. The reason offered for this situation are familiar — little or no awareness of UDAG on the part of small town officials; a lack of interested private developers; a lack of staff capacity and technical expertise; a lack of private financing (e. difficulty in getting firm financial commitments and inability to leverage enough private investment to make a competitive application)

THE FEDERAL RESPONSIBILITY

The federal responsibility for promoting the economic welfare of the nation is little disputed. Differences arise as to the extent of responsibility and the methods to be employed in meeting these obligations.

NADO bases its position on a recognition that all communities are not equally endowed with economic resources and that the effects of broad macro-economic policies do not fall evenly across the land. In fact see abundance of in which federal policies benefit the economies of few relatively affluent communities at cost to others which have higher unemployment and lower household incomes (e.g., procurement of major weapons systems).

We believe that the federal government has a responsibility to encourage, in fact to foster economic development. To fulfill this responsibility requires more than relatively passive tax breaks which primarily benefit larger, more profitable firms.

Our members are committed to working with Congress to see that an improved federal economic development program is enacted and adequately funded. We not only support passage of H.R. 10, but also support continuation of existing programs in the interim.

For the third consecutive year, the Administration has proposed a package of funding cuts which would adversely affect rural economic development. We are troubled over cuts in development programs which assist economically distressed non-metropolitan areas. The Reagan plan would:

- o Eliminate the Economic Development Administration.
- o Abolish the Appalachian Regional Commission.
- o Substantially reduce the funding for Farmers Home Administration rural development loan and grant programs.

- o Abolish the Rural Development Loan Fund, the Community Development Credit Union Revolving Loan Fund, and other programs assisting rural development.

If these budget proposals are accepted by Congress, rural communities could no longer rely on the federal government for needed economic development assistance. And, as you know, few state governments are fiscally able to fill the gap. The result would be a ripple effect since the federal programs tend to be closely linked with private sector investment. In short program terminations and reductions in funding would effectively decrease the rate of growth in some rural areas and accelerate economic decline and continue population loss in others.

Federal programs to stimulate rural development have been cut significantly during the past five years. Prior to the Jobs bill (H.R. 1718), PAMA rural development programs had been cut by about 78 per cent. They would be reduced further and folded into a block grant to state governments if the Administration has its way. With elimination of EDA and ARC the federal government would have only a portion of the CDBG program, UDAG and SBA loan programs as its active economic development tools.

STATE AND LOCAL FISCAL POSITION

It is well documented that state and local governments are experiencing fiscal stress. In 1982, federal grants-in-aid and corporate profits tax accruals both declined for the second year running while sales tax accruals increased at a rate half of that in prior years. Overall despite tax increases, state and local receipts increased by less than five per cent, yet expenditures increased by nearly five and a half percent, despite widespread retrenchment. The result was the first sizable deficit in the local government sector since 1975.

Clearly, such gross figures mask wide disparities. Some state and local governments are relatively well-off in fiscal terms while others are "truly needy." At least sixteen states have experienced severe lags in personal income growth during the past two years. (Indiana, Nebraska, Iowa, Idaho, Montana, West Virginia, North Carolina, Arkansas, Alabama, Kentucky, Michigan, Wisconsin, Wyoming, Oregon, Pennsylvania, Minnesota)

THE NATIONAL DEVELOPMENT INVESTMENT ACT

The National Association of Development Organizations strongly supports enactment of H.R. 40, the National Development Investment Act and the Appalachian Regional Development Act Amendments of 1983.

We are particularly pleased with the attention to development investment strategies and the continuation of valuable roles for economic development districts. Our member agencies have established excellent working relationships between the local governments they represent and the private sector. Their efforts have led to increasing private investment, saving and creating jobs in their regions. The district organizations are well equipped by experience to carry out the mandates of H.R. 40 and help their local governments to make effective use of federal aid to support private sector development.

We strongly endorse the continuation of provisions for infrastructure development. We have realized for some time that little if any economic expansion occurs in regions lacking basic community facilities. Such places lack the resources to provide needed facilities on their own. Federal infrastructure assistance is necessary to permit the nation's most economically disadvantaged communities to compete with other more fortunate jurisdictions in attracting and retaining private businesses.

However, a fifty per cent maximum federal share of grant rate will mean that the poorest rural communities still will face great difficulty in financing infrastructure development. More appropriate would be a sliding scale of grant rates based on local economic distress and fiscal effort. Communities which are willing but unable to bear costs locally should be given an affordable opportunity to participate, as is provided to Indian Tribes.

We also favor the inclusion of the revolving loan fund component of H.R. 10. Another contribution to slow economic growth is the lack of capital for small businesses in non-metropolitan and rural areas. Banks in many small towns have been "loaned-up" with farm loans or have viewed small business loans as unacceptably risky. The resulting lack of private capital and the inexperience of many small businesses in dealing with other sources of funds have led many small firms to close when they could have survived.

The revolving loan funds established by many economic development districts have made long-term financing available to small firms. This assistance has given many businesses the resources they require to renovate and expand their facilities and acquire new equipment. Clearly, federal financing of such revolving funds provides a needed alternative for small businesses.

Again, however, the federal share or grant rate proposed is too low for the most distressed rural areas. Such communities will have great difficulty in raising half or more of the money required for viable revolving loan fund. A sliding scale attuned to distress and availability of private capital makes sense.

We also encourage the retention of existing Economic Development Administration staff to implement the provisions of the National Development Investment Act. They are experienced professionals whose knowledge of economic development should be used to support state and local efforts.

DESIGNATION CRITERIA AND RURAL DISTRESS

For the purposes of legislation aimed at stimulating or facilitating the creation of employment opportunities it is appropriate to focus on employment-related criteria for identifying or defining economic distress. We should create jobs where they are needed, if possible. However, economic distress is evidenced by a variety of symptoms, not merely the official unemployment rate. Nor does median family per capita income adequately reflect the nature of economic distress at the household or neighborhood level. Such statistics are not perfect proxies for hidden unemployment and underemployment. Statistics indicating the incidence of poverty show that a significant proportion of households can be poor while median and per capita figures are skewed by a sizable middle-income group or a disproportionate number of high incomes.

This is not to say that unemployment and income statistics should be ignored. It is just that they do not necessarily reveal economic distress.

We are particularly concerned about criteria for rural economic distress. The inadequacies of federal data collection and statistical definitions regarding rural areas have been well documented. For example, the National Commission of Employment and Unemployment Statistics explicitly recognized the lack of useful labor market indicators for measuring the adequacy of employment for rural workers.

We know that underemployment measures are mandatory for an adequate depiction of nonmetropolitan and rural labor market realities. We know that the exclusion of discouraged workers from the unemployment count has disproportionately adverse significance to the evaluation of rural labor markets.

Rural areas have higher proportion of low-earnings occupations, unpaid workers in family operated enterprises, involuntary part-time employment, low-return self-employment, and casual, seasonal and migratory employment

Statistically the employed include unpaid workers in family-operated enterprises. Also, smaller farm operators receive the great majority of their income from nonfarm jobs, yet when they lose their nonfarm jobs they are still counted as employed.

Additionally rural areas have lower labor force participation rates and a higher incidence of poverty incomes, even among those who are employed full time. An adequate index of rural subemployment would have to include the household heads working full-time but earning incomes below the poverty line. One approach would be to use the Bureau of Labor Statistics measures of "U6" and "U7" to determine distress. "U6" includes not only full time job seekers, but also half of those working part-time due to lay-offs and similar economic reasons and half of those seeking part-time work. The "U6" rate is based on the civilian labor force minus half of the part-time labor force. "U7" includes "U6" plus discouraged workers. Significantly, the differences are greater for rural America than for the nation as a whole.

The bottom line is: if we are going to use an unemployment-related statistic to define economic distress, we should do it right. We should not use a biased criterion that ignores genuine economic distress in rural or urban areas or in one region or another. Unfortunately, even if we use an appropriate index for rural employment conditions, rural data collection has been notoriously inadequate.

On another front, recent events have shown that we must be very careful about federal statistics regarding rural incomes. Due to data coding errors, the Census Bureau vastly overstated incomes in many rural counties and small towns. When you are dealing with a small population base, it takes relatively few errors to significantly affect statistical indices such as per capita income.

So, not only does per capita income mask significant poverty situations, but also the reported data is not necessarily reliable.

Clearly, we would like to see the designation criteria currently used in H.R. 10 changed to deal more equitably with rural economic distress. At the same time, some urban areas facing similar problems would be treated more fairly. For example, if the criteria used in last year's H.R. 6100 (97th Congress, 2nd Session) were used in H.R. 10, employment growth rate lag population loss would serve to qualify certain big cities as well as a number of rural areas. However, we do not believe that the criteria should be so loose that virtually any place can qualify.

CONCLUSION

NADO's members support H.R. 10 because it helps to meet the basic needs of less affluent small communities for economic development assistance. The bill addresses the need for both physical and institutional improvements in the public sector. In addition, it will help provide needed capital for private business development.

Chairman LAFALCE. Now we will begin questioning.

Mr. Campbell, I thank you for staying so that you could participate in this. I think the first question I have is of you, **Mr. Campbell.**

You have heard Mayor Morial of New Orleans, representing the U.S. Conference of Mayors. You have heard Mr. Bergman and Mr. Goldstein of North Carolina, Mr. Page from Vermont, National Association of Development Organizations, who strongly support the need for this particular type of legislation, with a few caveats here or there.

I would ask if you would have any specific comments you would like to make regarding any specific statements that any of them have made?

Mr. CAMPBELL. Thank you very much for the opportunity, **Mr. Chairman.** It is a pleasure to sit at the table with such distinguished gentlemen.

In terms of Mayor Morial representing the U.S. Conference of Mayors, you really couldn't have picked a better representative of America's cities, in some respects, because he clearly has had a turnaround in New Orleans. I am not going to take exception to his remarks.

When you say specific comments, we have in the past worked with Mayor Morial to make sure that the projects contained in the Reconciliation Act were properly funded. We have no indication that any of the grant programs in New Orleans were not properly used, and he clearly cited examples of results with many of his projects, and I don't have any problem with that.

I guess the basic concern that I have, having listened to the distinguished representatives from North Carolina and Vermont, is that again you pick some outstanding areas for some success stories, but I think underlying that success happens to be a vibrant business sector.

I think that in North Carolina their Governor was in the lead in the State in terms of research and development, which is why in places like Raleigh, I believe they have low unemployment.

Chairman LAFALCE. But, **Mr. Campbell,** I think that the Mayor testifying on behalf of the U.S. Conference of Mayors and every other member of the panel testified for the need for an appropriate governmental role to make their strategies and their projects work. Clearly there is need for a local role and for a private sector role to match that governmental role from the Federal Government, and no one can quarrel with that.

But I don't think we can say that there is no need for a Federal role by simply praising the excellence of the witnesses we have had. That doesn't seem to me to do the trick.

Mr. CAMPBELL. **Mr. Chairman,** what we are saying is this: There was economic growth in America to start with long before the Economic Development Administration.

Mr. Stockman in his letter has clearly indicated, and I wholeheartedly support—if you will allow me 30 seconds here—that this administration supported funding of the community development block grant program, the UDAG program.

Of course, an urban program is not a rural program, so I don't know what **Mr. Page** is trying to say when he is saying that the

UDAG program is responsible to rural purposes. The community development block grant program does have a set-aside for small cities in it, and it is being used for that purpose.

What we have to decide, and the reason that I went to such pains to point out some of the things that I did to you, Mr. Chairman, early on, is that we do not want to see the success that this Nation has enjoyed in the last few years eroded in terms of economic recovery.

I would submit to you today that we are headed in the wrong direction, and we talk about real world versus illusions. I think that if we want to see the unemployment in America reduced, we will at least come to grips with the reasons why the people are out of work, and we will deal with the changes in our global economy. I do not see H.R. 10 as responsive, and this administration does not see H.R. 10 as responsive.

The issue is not, in my respectful judgment, an issue between the role of the Federal Government versus local government. It is the type of enterprise we are going to continue to have in America.

This is a system, as you well know, based on capitalism and free enterprise. We are saying that we would like to see a reduction in the size of Government.

First we would like to see a continuation of the President's tax policies. We would like to see a continuation of regulatory reform. We would like to see a continuation of economic recovery.

Chairman LAFALCE. I want to praise you, Mr. Campbell, for doing probably precisely what Mr. Stockman would have had you do: Parrot the stock lines and phrases with which we have all become so familiar.

It seems to me that we share the goal of competing in a global economy. Nobody suggests that any one particular bill is the answer to it. The question is whether or not it is an appropriate piece in a total package. But let me go on.

The Reagan administration has said that local and regional economic development should be carried out by the States and localities under the New Federalism. What has your agency been doing to help the States and localities take over this responsibility, much of the expertise for which has been in the EDA?

EDA has been responsible for much local and regional economic development. Now, as I understand it, the New Federalism, you want to turn it over to the States and localities. What have you been doing to assist this transition?

Mr. CAMPBELL. Historically, Mr. Chairman, EDA has provided millions of dollars for capacity building in these areas. We have funded annually close to 500 different grantees in terms of planning grants, representing a variety of State-local-regional jurisdictions. We have been doing that.

We obviously have been expanding studies to support research. The incentives that are now available from each State to attract business have been categorized. A draft report is out showing that. So we have aided in capacity building.

I would like to say, Mr. Chairman, an area that I am not as familiar with as I would like to be, but Congressman Roemer might be more familiar with, where we have seen results. Again, we keep leaning on the business sector and you probably are tired of hear-

ing this. It sounds like a broken record. And I am not here to parrot Mr. Stockman. I am here to support the policies of this administration.

But I just feel that I would be remiss professionally if I did not express these views of the strength that does exist in the business sector and attracting those types of industries that are succeeding, because, again, we see the key link is in the training and the re-training and in the overall structure of our economy that will allow for the prosperity that we so badly need.

Chairman LAFALCE. Let me ask you one last question, Mr. Campbell, before we go on.

There has been a lot of attention lately, I think appropriately so, on the great deterioration of the infrastructure of America. To some it has become a buzz-word, but nevertheless, I do think we have a problem with our public infrastructure.

Hopefully we can use it without its buzz-word connotations, but there are an awful lot of people who believe that we don't even know how much so-called infrastructure we have or what the needs are for fixing it up, and that there ought to be an inventory made of our country's public facilities, what kind of shape they are in, what it would take to bring them to adequate use.

Now, has EDA done any work on this? It would seem to me that it would be EDA's responsibility, if it is any entity's responsibility in the Federal Government. It would seem to me that it ought to be the responsibility of the Federal Government to catalog what we have and what our needs are, much as you catalog the incentives that the different States have that you just told me about.

Have you done this? Do you plan to do it? Could you?

Mr. CAMPBELL. Mr. Chairman, in the past I believe EDA has funded some studies that were used when Pat Choate was here. He, I believe, was the author of "America in Ruins." I think there are some studies in that area.

In terms of us planning to do it, we will continue to fund, as long as we are in existence, those agencies at the State and local levels who clearly have the capacity to undertake those kinds of studies. If that is in their overall development program, they can do it.

Chairman LAFALCE. This bill would permit the localities to do something just like that, wouldn't it?

Mr. CAMPBELL. Yes, it would, Mr. Chairman.

Chairman LAFALCE. Do you think there is a need for that?

Mr. CAMPBELL. In the context of this bill? No, sir, I don't.

Chairman LAFALCE. Do you think there is a need for it period, whether it is in the context of this bill or—

Mr. CAMPBELL. Mr. Chairman, certainly there is always a need to have an inventory of infrastructure, particularly when one looks at the importance of that. No one is denying that. I certainly wouldn't.

Chairman LAFALCE. But this should be done without Federal Government involvement; is that your position?

Mr. CAMPBELL. No, sir, that is not my position.

My position is that the budget for 1984 contains over \$34 billion for infrastructure. There are other agencies that have funds that can allow for this to take place.

I don't see why it has to come through EDA. I think we have to have a limit as to what we can do.

Chairman LAFALCE. Which other agency do you think should be involved in this cataloging of the needs of our public infrastructure across the entire United States?

Mr. CAMPBELL. The Federal Highway Administration, the Urban Mass Transit Administration, Department of Transportation.

Chairman LAFALCE. They should do it all?

Mr. CAMPBELL. No, I don't believe they should do it all.

Chairman LAFALCE. Should there be any one agency involved in the coordination of all our infrastructure needs?

Mr. CAMPBELL. Mr. Chairman, I would say that that role ought to be carved out appropriately between different levels of government.

Chairman LAFALCE. Well, who should take the lead on the part of the Federal Government, if there is to be some type of intergovernmental role—Federal, State and local—which I think there certainly should be, who should take the lead for the Federal Government?

Mr. CAMPBELL. I am not prepared to respond as to who should take the lead.

Chairman LAFALCE. Mr. Coyne.

Mr. COYNE. I have no questions.

Chairman LAFALCE. Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman.

Gentlemen, I regret to say that I have not had a chance to look at the prepared statement of the gentlemen from North Carolina. In going over it as quickly as possible, I did want to thank you for your effort in being here. I intended to do that.

I am well acquainted with the prestige in your profession of the department you represent. It is one of three I applied to when I looked for a graduate school clear back in 1961.

Thank you for offering your effort.

I would like a chance to get back to you if I have additional questions, because I am sure your comments will be very helpful.

I did look at the prepared statement of Mr. Page, and I want to thank you for the excellence of it. I think it is all too infrequently that we have someone who gives us testimony about the particular problems of depressed rural areas.

I am especially pleased with some of the points that you raised in the parts found on pages 6 and 7, which relate to the designation criteria for rural distress.

I think the problems of unemployment rated statistics that you point out there are very real indeed. In many States, including mine, the people living in the greatest poverty live in sparsely settled rural portions of the State. They are often not eligible for assistance.

I notice you make some reference to some changes you propose, or you endorse at least, in the last paragraph in that section. Is there anything else you would like to suggest, however, about changes in the eligibility section that might help us direct this assistance to those parts of our rural population that really need some assistance as well?

Mr. PAGE. I think at this point probably the recommendation that we have made here would have to be left to stand. It seems to be the best alternative of those that we have viewed.

The eligibility requirements obviously need to be tightened. I think personally that rural areas have suffered because of a laxness, a laxity in eligibility requirements in previous EDA programs.

Rural areas have the reputation of being very successful in their economic development efforts in using EDA money, and that I think is strongly in our case for using this money in the most distressed areas.

Mr. BEREUTER. But you would suggest that the criteria used in last year's H.R. 6100 are better or more appropriately addressing this issue than those in H.R. 10, is that correct?

Mr. PAGE. Yes.

Mr. BEREUTER. Thank you very much, gentlemen.

Thank you, Chairman LaFalce.

Chairman LAFALCE. Thank you, Mr. Bereuter.

Mr. Roemer.

Mr. ROEMER. Thank you, Mr. Chairman.

To the gentlemen from North Carolina, I have had a chance to both listen to your testimony and read your prepared text, and I find it fascinating, because to me you put your finger directly on the issue that gives me the most concern about the bill.

I don't believe anybody on this committee would shy away from a statement that economic growth, improvement in the quality of life, a stronger country economically, are all our goals, but in your multi-page testimony, you seem to paint the following picture, and correct me if I am wrong.

On page 3 in your testimony, Mr. Bergman, you point out at the bottom of the page, "Particularly valuable are the lessons learned about the risk of piecemeal project funding and the rote preparation of symbolic" et cetera, et cetera.

I emphasize two phrases, "piecemeal project funding" and "rote preparation."

You follow that on page 5, at the top of the page, by saying that "Both lemon socialism and citrus capitalism are avoidable if sound advice and technical assistance is routinely available to local participants."

Now, when I put those two statements together, I come to the following conclusion, that this bill, this \$4 to \$500 million a year, to correct unemployment in rural America, to help small communities make every community be a Reston or whatever our goal might be in this bill, that this \$4 to \$500 million a year will be piecemeal project funding. Look at the eligibility. Look at the limits on funding. And you are concerned about that.

Your caveat, though, is that we can avoid those pitfalls by planning, by top quality local involvement, citizen group planning.

Now my question is, Where is all this planning going to come from? Do you really believe that on a micro basis we can plan America's economy, that we can plan it from the grassroots up, that it is a logical role for the Federal Government planning in the local community, that maybe we ought to be concentrating at the Federal level on macro planning, places where the Federal Govern-

ment can make a difference? Enter national trade, for example, the promotion of the Sunrise industries instead of the Sunset industries.

Now, that is my problem with this bill, and I think that is your problem with this bill, if you would be candid about it. Your solution is that we can plan our way through the pitfalls. Do you really believe that? How do we do that in my hometown in Louisiana?

Mr. BERGMAN. Let me try a crack at that first. First of all, I agree entirely with what you have just said, and I don't think that our testimony on H.R. 10 should be taken as a testimony of faith that all the Nation's economic problems can be solved by good local planning. I don't want to indicate that, and I think we try to avoid that implication in our prepared statement.

In fact, I would argue that to make this bill work we probably need to have both reasonable urban and industrial policies at the national level; so I don't think this bill by itself will stand alone. But taking it alone, and dealing entirely in terms of what H.R. 10 attempts to do, we are saying that H.R. 10 won't even do what it attempts to do if you don't get the kinds of improvement which we propose.

Mr. ROEMER. And we agree. I agree with you completely, and I am saying it poorly and I apologize. I get a sinking feeling that we put the cart way before the horse in this matter, that an industrial policy for this country ought to be what we should talk about first, that there is a place for something like this, but not at first place.

Maybe second or third or somewhere in the process. And I will digress in the minute that I have left to tell you that this committee, through the leadership of its chairman, has had a series of breakfasts with learned gentlemen in the field of industrial policy, in the field of comparative analysis, our economy with the Japanese, et cetera, and the role of Government in comparative economic analysis was very limited.

Now, where Government stood, it stood strongly. It wasn't wishy-washy, it wasn't willy-nilly, but it was very limited, and you can take Japan as the leading example. There is no such program in Japan as this purports to be. There is a macro-economic policy, however, and I just leave you with the thought and my dilemma, that a micro policy like this, to lead off, is not necessarily in the small community's best interest.

I thank you, Mr. Chairman.

Chairman LAFALCE. I thank you very much, Mr. Roemer, for those insightful remarks. I do think that it would behoove this subcommittee, if Mr. Page, Mr. Bergman, and Mr. Goldstein would respond to Mr. Roemer's remarks a bit more fully.

Mr. PAGE. I think, Mr. Roemer, that at this point in time, lacking a national industrial policy, lacking the kind of economic leadership that I think all of the Nation deserves, that H.R. 10 offers a substantial foothold in turning this economy around.

We have found time and time again that local areas are capable of planning, that they are capable of planning their economic futures, if they are given sufficient resources to do so. Once they have done their planning effort, they are capable of having a very significant effect on regional economies, statewide and regional economies, and if we have to start somewhere—and I fully believe

we have to start today—then I think it is good to start at the local level, because we can affect it and we can implement it and we can have the most positive impact in the shortest turnaround time possible.

Mr. ROEMER. I know you believe that, and I accept your sincerity, I really do, and you might be right. I might be wrong when I rebut to say that the plan leads to the resource, not the resource to the plan, and that in our kind of society, the strength of it is that the most productive, the most incisive, the most together get the reward, and the trouble with this bill is that it doesn't promote those things.

As a matter of fact, the gentlemen from North Carolina, on page 3 of their statement, show what this bill could turn out to be if we are not very careful, "piecemeal project funding and rote preparation." It bothers me.

Mr. PAGE. That is why I believe that it is important that the district operation be maintained, that that local involvement be maintained, because we have never—and I think this is true of many rural areas—developed a strategy simply on a piecemeal basis.

It has been developed with long-term objectives, and we have never designed a strategy to take advantage of those funds simply because they were there.

We have designed strategies that we felt would be effective in turning our local economy around, and we have then negotiated with State and Federal Governments to participate in those projects.

Mr. ROEMER. You are a wonderful and unique individual.

Mr. PAGE. I think not unique. I may accept wonderful but I will not accept unique.

Mr. ROEMER. If you can tell me that your organization has never gone after the money, you stand alone in America.

Mr. PAGE. I didn't say we had never gone after the money. I said we never designed a strategy specifically to do that.

Mr. ROEMER. I think you just said we never have gone after the money.

Chairman LAFALCE. Thank you. Let me share a few of my thoughts now.

I have some ambivalent feelings about this legislation. I am not a cosponsor of it. Yet it did pass the House of Representatives last year, and it also passed the Public Works Committee by unanimous vote of each and every Democrat and each and every Republican, and I believe the Senate is going to consider somewhat similar legislation.

What are some of my concerns? Well, first of all I share a lot of Mr. Roemer's concerns. I think the Federal Government should be doing much more, and when he says macroeconomic as opposed to microeconomic, I think what he means is not that we should simply be concerned with overall fiscal and monetary policy, which we must be, but much more than that, that we must have—by macro I mean a Federal industrial policy or a Federal industrial strategy.

One of the difficulties I am going to have with this bill is that it does give money to local economic development districts, and we don't have enough in the Federal Government other than simply

giving money. Yet we have to reconcile what our desires are with what the strategy of this administration is, and the strategy of this administration seems to be if you are going to have economic planning, let it be done on a State and local level. And so, in a sense, this bill would attempt to mesh Federal programs with the New Federalism by giving money to lower levels of government, so it is somewhat of a compromise.

Now, I have problems with it, primarily because of the fact that it just happens to mesh with the approach of the New Federalism that the President is espousing. I have other difficulties, too.

I live with OEDP's, and I agree that the OEDP's did deal with piecemeal project funding. There was very often rote preparation.

I am not against, necessarily, piecemeal funding. UDAG applications in my judgment have been one of the possible successful economic development efforts of the Federal Government. They have been dealing with discrete projects. You could call them piecemeal funding. Not only has that not been bad, but I think it has been tremendous, certainly within my congressional district and across America.

I do think I can say that but for the piecemeal funding made possible by the UDAG program, we would not have the revitalization that is taking place in downtown Buffalo, downtown Niagara Falls, downtown Rochester, downtown New Orleans, and many downtowns across America.

I can think of other EDA projects within my congressional district that have been excellent, that have been great success stories. I can think of others that have been great failures, where bad money was tossed after good.

I am not sure that citizen planning, Mr. Page, Mr. Bergman, Mr. Goldstein, as you say on page 5, "sound advice and technical assistance" is going to solve the problems of limited socialism, capitalism, whatever you call it. If there is a failing business in a community that employs 500 or 1,000 individuals, the local citizenry will suggest that good, sound planning would require that it be saved.

Now, without the necessity, perhaps, of doing those things which are necessary to save it, I come at the problem a little bit differently, though.

We have to promote our sunrise industries, but we have to preserve a great many of our so-called sunset—traditional—industries too. The question is how can we give and render assistance in such a way to preserve them in the future when they could be competitive on their own two feet.

What concerns me in this bill is that we don't necessarily call for those quid pro quos, those concessions either, nor have your comments addressed that problem nor suggested alternatives.

Mr. Campbell's testimony simply dismisses an appropriate Federal role, so I am dissatisfied with both your approaches, because I just think that something has to be done. We can't just simply say let us wash our hands of it, nor can we simply say: Oh, well, sound planning and advice will solve the problem.

Where do we go? I am not sure exactly where we are going to go. That is one of the reasons we had the hearing, and we are going to have to give this a lot more thought in the days and weeks ahead. I would like to feel free to call upon all the panelists for their techni-

cal advice and assistance, if I may, on a totally voluntary nonpaid basis, so that we might be able to come up with a better approach.

Those are all the thoughts I have, the only thoughts I have at this juncture that I want to point out, but before we conclude I wonder if any of the other members of the subcommittee have any final comments or questions they would like to ask. Bill? Buddy? Doug?

With that, I would thank each and every one of you for your participation. Thank you.

Mr. CAMPBELL. Thank you, Mr. Chairman.

[Whereupon, at 1 p.m., the subcommittee adjourned.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR INCLUSION IN THE RECORD

Edward M. Bergman

Local Economic Development Planning in an Era of Capital Mobility

ATTACHMENT 1

EXTERNAL FORCES AND LOCAL PERSPECTIVE

Capital mobility is the technical term used by policy analysts to describe the movement of industry from one place to another, often between declining and growing local economies. This subject has recently become a topic of considerable research and policy interest at two levels. First, researchers have been concerned with the tendency of corporate forces and national policies to foster polarization of local economic conditions: disinvestment and plant shut-downs in declining areas simultaneous with reinvestment and plant relocation in growing areas. Second, the accelerated pace of disinvestment-reinvestment since the mid-seventies has begun to be identified as a serious problem for both declining and growing areas.

Indeed, one could argue that local economic development planning as a field has become newly prominent during this period of rapid economic dislocation. The burgeoning literature on local economic development planning during the times era of stagflation, recessions and municipal fiscal crisis attests to a strongly felt need by planners to help guide the development of their local economies. The American Planning Association's recently established Economic Development Division has become notable for its rapid growth and for overflow crowds attending its sessions at recent APA conferences.

Still absent, however, is a coherent sense of how a planner undertakes economic development from the perspective of the local community and its well-being rather than in response to national corporate imperatives. The extraordinary displacement of local for federal perspectives has been argued by Yin (1980) in terms of local program agency structure and by Bergman (1981) in terms of forfeiting areawide planning for piecemeal grantsmanship. The immutability of national corporate relocation patterns was argued by the President's Commission (1980) which identified the role of local communities as an obliging accommodation to the national trends. Even within states, local governments to play negligible--or at best responsive--roles in state level industrial development programs (Redmond 1978; Luebke, McMahon and Risberg 1979).

Yet the need for local economic planning has never been greater. Local planners may be the only force willing to come to grips with the rapid and wrenching changes in their local economies brought about by external forces. The time has come to identify approaches to economic development planning from a truly local perspective.

The remainder of this article will sketch the disparate patterns of economic change in North Carolina communities and then outline the options available to local economic development planners.

SOUTHERN ECONOMIC GROWTH AND CAPITAL MOBILITY: THE CASE OF NORTH CAROLINA

Economic vitality in North Carolina is so widely assumed that future expectations of growth go undisputed. For example, the North Carolina State Division of Policy Development recently released its workbook for local economic planners. The document's familiar projections of economic growth from 1980-2000 include 948,000 jobs and a 3% annual rise in per capita income. N.C. Division of Policy Development 1981 pp. 11-14. The workbook estimates that 90% of all new jobs will be formed outside the traditional agriculture and manufacturing industries. Fully three-fourths of growth in North Carolina is to be found in the population-serving industries of urban areas. Each of the expected growth rates exceeds national averages, but growth will not occur uniformly in all industrial sectors. Manufacturing will employ 28% of all workers by the year 2000 down from 34% in 1980 and some industries will reduce employment by substantial amounts (particularly tobacco, food, textiles, apparel and wood products). After reviewing these projections, observant columnist offered the following comments.

...The problem is current, and it doesn't hold implications just for the coming generation but for today's Tar Heels.

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The newspaper stories continue to startle as they filter in from locations across the state: a hundred or so jobs lost here; a thousand there. These are not temporary layoffs, but signs of a basic change in North Carolina's economy.

The headlines out of Laurinburg, Shelby, Salisbury and elsewhere as long-established textile firms change plans and methods are not about the future. They tell of today's North Carolinians who are finding their lives disrupted by change they are not prepared to cope with (Noblitt, October 1981).

These comments give local meaning to the research evidence which analysts studying "Sunbelt-Snowbelt" capital mobility have produced.¹ More specifically, Bluestone and Harrison (1980) have observed in the Dun & Bradstreet data a tendency for some southern states to behave like northern states in terms of net employment loss. North Carolina seemed particularly susceptible to net job losses during key periods in the 1970s. Heavy industrial concentration in textiles, apparel and furniture places the state in a vulnerable position during periods of inflation, business cycle decline and stagflation since these markets are highly dependent on the health of the homebuilding and automobile industries. The state's economy is also affected by the secular trend toward "off shore" operations as textile and apparel manufacturers seek lower labor costs in developing countries.²

These trends of capital mobility and plant shutdowns in North Carolina industries illus-

trate the range of circumstances which local economic development planners must deal with: industrial growth in some areas, industrial decline in others. The logical questions focus on the amount of growth, the amount of decline, and specific locations.

Table 1 presents evidence of manufacturing employment changes for the 1977-79 period. Two points are particularly noteworthy. First, at least 14,915 manufacturing jobs in 42 counties were lost over a two-year period³, 77 percent of which are in textiles and apparel, the two most

¹ The current literature of capital mobility and public policies is primarily focused on northern U.S. cities and regions where industry loss is greatest. The understandable attention paid to these areas tends to reinforce the familiar but essentially misleading view that planning for industry loss is solely a problem for Snowbelt areas and that planning for industry gain is the sole preoccupation of Sunbelt regions. That regional dichotomy is useful to the extent that it reflects very general tendencies toward uneven development, but it uncritically leads one to simplistic policies and avoidable "sectionalist" division (Shaul 1981). It ignores the reality of substantially sound local economies which can be found in the heart of the Snowbelt (Goldstein, Bergman and Paulson 1981) and the extraordinary flux of growth and loss in Sunbelt economies.

² Some loss trends in textiles may stabilize due to reindustrialization of that industry with new technology from textile-related capital goods industries (the latter principally instances of foreign direct investment; Leigh-Preston 1979).

TABLE 1: JOB GROWTH AND JOB LOSS IN SELECTED MANUFACTURING INDUSTRIES 1977-1979

1977 Employment (4th qtr.)	Net Job Growth ¹		Industries	Job Loss: Closings/Layoffs ²	
	Number	Percent		Number	Percent
41,655	2,904	6.97	Food	- 561	1.3
30,080	-3,594	-11.95	Tobacco	- 676	2.2
256,150	-2,222	- .87	Textiles	-8,548	3.3
87,216	- 619	- .71	Apparel	-2,898	3.3
33,367	2,834	8.49	Lumber	- 210	6.3
81,489	1,345	1.65	Furniture	- 580	0.7
21,855	- 569	-2.60	Paper	- 124	0.6
37,661	1,109	2.94	Chemicals	- 64	0.2
22,227	2,436	10.96	Rubber, Plastics	- 130	0.6
16,970	1,905	11.22	Stone, Concrete	- 80	0.5
38,141	8,721	22.75	Non-Elec. Machinery	- 512	1.3
45,978	10,459	22.75	Electric Machinery	- 300	0.8
10,465	3,733	35.67	Transportation Equip.	- 150	0.6
10,341	899	8.59	Instruments	- 39	0.4
60,586	5,410	8.92	Other Manufacturing	- 53	0.1
794,181	34,410	4.38	All Industries	-14,915	1.9

¹ Source: N.C. Bureau of Employment Security Research. 1977, 1979. Insured Employment and Wage Payments Annual Summary. Raleigh: Employment Security Commission of North Carolina.

² Source: N.C. Business Assistance Division. 1978-1981. Plant Closings and Permanent Layoffs in North Carolina. Raleigh: N.C. Department of Commerce.

vulnerable industries. Second, to overcome the loss of 14,915 jobs and also register a net statewide gain of 34,300 manufacturing jobs, the state's other manufacturing industries had to grow by at least 49,215 jobs.

Thus, on average, job growth in the state outpaced job loss by a three-to-one margin. As Table 1 clearly shows, the fastest growing industries in real and in percentage terms are non-electrical machinery (SIC 35 electrical machinery (SIC 36) and transportation equipment (SIC 37 together, they accounted for 65% of net job growth.

The tasks facing economic development planners would be far simpler if three jobs were gained in the same communities where each job was lost, particularly if the actual job losers --and not immigrants--were hired for the new job openings. However, growing industries are not necessarily locating in the places with declining industries. To help visualize the potential for areas to experience various mixes of loss and growth, Table 2 presents summary statistics by general types of area in the state.

Recent manufacturing losses are clearly concentrated in small towns and nonmetropolitan counties of the mountain and coastal regions, while manufacturing job gains predominantly in metropolitan counties of the Piedmont. Metropolitan Piedmont gains are particularly heavy for SICs 35, 36 and 37 which the state's fastest growing industries. These differences illustrate the of job loss and job gain at general levels of area definition. This in turn points to the likelihood that particular communities across the state will experience wide range of economic circumstances in the near future. Different cir-

TABLE 2: RECENT MANUFACTURING JOB LOSS AND JOB GROWTH BY AREA 1977-1979

	SIC 35-37		
	Loss	Gain	Gain
Region (Total)	100%	100%	100%
Mountain Counties	18%	18%	9%
Piedmont Counties	49%	64%	79%
Coastal Counties	33%	18%	12%
Metropolitan (Total)	100%	100%	100%
Metro Counties	35%	60%	70%
Non-Metro Counties	65%	40%	30%
Urbanized Areas (Total)	100%	100%	100%
50,000 and over	18%	-*	-
10-50,000	34%	-	-
Under 10,000	48%	-	-
Total Jobs	14,925	34,751	29,061

*Statistic unavailable on place of work basis for urbanized
Sources: U. Bureau of the Census 1977, 1979. County Business Patterns--N.C.

cumstances call for different approaches, even in a "Sunbelt" state. Planners in areas likely to experience rapid economic growth will have to deal with development issues similar to those which may accompany rapid expansion of the microelectronics industry (Whittington, ed. 1981; NC INSIGHT, Vol. 4, No. On the other hand, planners in major job loss areas of the state must consider an entirely different range of options and strategies (Robinson 1981; Tremoulet 1981).

STYLES OF LOCAL ECONOMIC DEVELOPMENT PLANNING

The earlier part of this article takes note of two conditions which affect local economic development planners. First are pressures exerted by federal policy and corporate mobility to substitute external needs for local needs in the process of developing local economies. Second is the realization that local economies across the state are affected differently, .e., some have growing industrial sectors while others experiencing industrial decline. What, then, are the effects of these conditions on possible styles of economic development planning?

Before this question is explored more fully, a style of planning will be said to consist of several essential features grouped under the broad headings of planning, policy and development. These features are:

- A. Planning
 1. Model of Planning practice (orientation of planner)
 2. Auspices for planning (agency or institutional setting)
- B. Policy
 1. Industrial Policy in locality
 2. Labor Policy in locality
 3. Enterprise Policy in locality
- C. Development
 1. Intervention model of implementation
 2. Illustrative development projects

If these essential features are elaborated for both growing and declining localities³ we are able to isolate stylistic variations which due to differences in local economic conditions. To complete our examination, we will assume further that localities may adopt

³ These estimated losses are undercounted. Not counted are the small plant shutdowns or job losses in remote parts of the state which escape the attention of newspapers or the clipping service used by the N.C. Department of Commerce.

one of two perspectives: responsiveness to external needs or responsiveness to local public needs. For reasons mentioned earlier, responsiveness to external needs characterizes much of prevailing practice, and local responsiveness is identified with emerging (or latent) practice. This sets the stage for posing a typology of four distinct planning styles:⁴ two prevailing styles (I and II) and two emerging styles (III and IV) for local economies which are growing or declining. The four styles are laid out in Table 3 in clockwise order of their emergence.

Style I: Recruitment Planning

Recruitment planning is the traditional basis for economic development used in growing areas--suburbs and regions--to attract corporate expansion. Public involvement in this style of economic development planning is quite limited. In the words of one observer,

"For the most part, responsibility for guiding new investment to locality has been perceived historically as being in the hands of the private sector--the province of the local chamber of commerce and the area development offices of the utility companies, the major railroads, and banking institutions. For the local government to intervene overtly in those decisions that determine the nature and level of jobs the mix of economic activity in the community would have been viewed as an unwelcome intrusion. (Nathanson 1980, p.3)

Private sector vitality and initiative tend to displace expressions of local concern for explicit planning or policy making.⁵

policies associated with this style of economic development tend to function at the level of operating assumptions. Industrialization of the area is taken for granted as obvious policy.

⁴ Most of the following discussion assumes the existence of a local economy which is either growing or declining; but many undeveloped areas tend to behave much like developed economies experiencing rapid decline

⁵ A variant of these styles is discussed in Bergman (1981b) and was also presented at the American Planning Association Conference in Boston, April 1981.

⁶ Whether this displacement of concern results from business influence local politics is a question posed and discussed by Lindblom and others in Siegfried, 1980, pp.239-324. For advice about ways of gaining local public control over industrial recruitment, see Redmond 1978.

This is generally linked with a tacit understanding that industrialization results from a corporate enterprise calculus which reveals the relative advantages of adjusting investments in plants from one area to another. Finally, the implicit labor policy expects workers who receive lower wages and social benefits for their families to subsidize economic development by reducing corporate labor and tax bills (Malizia 1976). A recent editorial posed the effects of this policy clearly:

"In response to an inquiry from a business prospect, the state (North Carolina) Department of Commerce recently compared the pay of computer operators in the banking industry in Minnesota and North Carolina. Computer operators in Minnesota earn an average of \$9 an hour, those in North Carolina \$6.40. The difference, the department told its business prospect, amounts to a 'savings' in North Carolina of \$5678 per computer operator per year." (Guillory 1981)

Typical development models include a wide array of industrial inducements and efforts to enhance the image of the area "business climate" (Harrison and Kanter 1978; Schmenner 1980). Because it is the most familiar style of local economic development planning, variants of it can be found in nearly every locality, in declining economies which have been badly affected by industrial losses (MCUED 1977; Nathan Barnes 1976).

Style II: Impact Planning

Impact planning is a more recent model of practice which is focused efforts to mitigate or reduce the worst effects of industrial losses in local economy. Although episodic experiences during the Depression and again in the recessions of the 1950s established a concern for the effects of plant shutdowns in some communities formal economic development efforts

not conducted by localities until the recessionary slide of the 1970s. What has since become known as "The Standard Policy Response" (Bluestone and Harrison 1980, pp. 14-15) now constitutes the most recognizable public sector planning approach to economic development. The approach is based heavily on the continued availability of federal programs (CETA, EDA, CDBG, UDAG, FmHA) and it operates out of the local program offices that Yin (1980) has suggested to mirror the organizational structure and policy concerns of their patron federal agencies.

The main assumption underlying federal and local impact policies is that they reflect a basic responsiveness to external rather than local needs. While federal policies are usually explicit, local policies are usually understood

Table 3
LOCAL ECONOMIC DEVELOPMENT PLANNING:
PREVAILING AND EMERGING STYLES

Prevailing Perspective: Responsive to External Needs		
	Growing Areas	Declining Areas
Planning	(I)	(II)
. Model of Practice	Recruitment planning	Impact planning
. Auspices	Business/industry development commission	Program agencies (CETA, EDA, UDAG)
Policy		
. Industry	Industrialization	Deindustrialization
. Labor	Money/social wage subsidy	Money, psychic, community costs
. Enterprise	Corporate adjustment assistance	Corporate immunity
Development		
. Intervention Model	Industrial Inducements	Impact program expenditures
. Illustrative Project	Kelley-Springfield (Fayetteville, NC) ¹	ILC Steinthal (Roxboro, NC) ²
Emerging Perspective: Responsive to Local Needs		
	Growing Areas	Declining Areas
Planning	(IV)	(III)
. Model of Practice	Strategic planning	Contingency planning
. Auspices	Economic planning staff	Economic Development Department
Policy		
. Industry	Industrial integration	Industrial stabilization
. Labor	Labor integration	Producer resources
. Enterprise	Neutrality	Community based
Development		
. Intervention Model	Public-initiated development	Community-initiated development
. Illustrative Project	Unknown	Rath Meatpacking (Waterloo, IA) ³

¹ See Moriarty

² See Region K Council of Governments; Carlisle, et al 1978; Stein 1980.

³ See Gunn 1980.

implicitly as background assumptions. Still, few planners would have difficulty in recognizing local industrial, labor and enterprise policies if stated explicitly. First, "deindustrialization" is the industrial policy in these declining areas. A firm's need to close or gradually reduce operations in older, less profitable plants means that it will withdraw production in certain areas, i.e., deindustrialize. This policy is, of course, the mirror-image of industrialization policies for growing areas and merely restates the obvious. Second, enterprise policy is based on the locality's implied acceptance of risks associated with corporate modes of decision making and investment behavior. This acceptance of risk probably extends back to a tacit acknowledgment that a corporation will not necessarily keep its plants in places where it earlier relocated them. By extension--although it is increasingly contested in most localities--this acceptance of risk also implies that corporations can later remove such plants and reinvest elsewhere without implied community obligations. Third, labor policy is based on the assumption that costs of absorbing local impacts will be borne primarily by released workers, their families and, indirectly, by other workers in businesses whose employment depends upon local wage purchasing power. Loss of wages, psychic and physiological distress,

higher tax burdens, greater social program expenditures and continued obligations to amortize industrial infrastructure are included in the costs which all workers in the community ultimately bear (Carlisle and Redmond 1978).

Development activities are clearly implied by the term "impact planning". The typical model is a program "triggered" by sudden, unexpected losses of employment and economic activity. Earlier experiences with impact programs were limited to effects caused by uncontrollable acts of God (declared disaster areas) or the military (base closing). National urban policy has since included a concern for reducing the local impacts of necessary--but equally uncontrolled--acts of corporate mobility.

The programs associated with such policies are generally targeted on particulars of the episode which trigger a program: a specific plant, workforce or impact area. The consequences of planning solely for impact effects are twofold. First, in complying with the national policy mandates and program regulations, planners are distracted from efforts to plan for the coherent development of their local economies. Directives which specify criteria for triggers, targets and related aspects of program grantsmanship displace thoughtful plan-

ning. Second, the planner's role in redeveloping a local economy is placed in jeopardy when federal funds are withdrawn (as they appear to be), when localities no longer afford the costs of standard impact program models, when planners have no alternative style of planning to guide them.

There are many impact program efforts which localities have attempted that illustrate this stage of planning. One instance in particular concerns the well-chronicled efforts of an economically distressed small town in the North Carolina Piedmont to deal over a four year period with the estimated impacts of an expected plant shutdown. Kerr-Tar Regional Council of Government (1977) an unsuccessful attempt to use EDA Title IX funds to finance employee stock option plan buy-out of the plant (Carlisle, et al 1978) and the consequences of an eventual plant shutdown Stein 1980

Style III: Contingency Planning

Contingency planning is an emerging style which grows out of the ineffectiveness of impact planning in declining and from an awareness that planning must anticipate impacts rather than react to them. As plant shutdowns and adverse economic impacts grow more frequent and as economic development officials come to recognize the scale of the problem, questioning of the assumptions which lie behind the reactive posture of the impact planning model is inevitable. Since impact planning responds to episodes of economic distress only after they happen, actions taken seldom fit into an overall plan for the future. Moreover, efforts undertaken to mitigate these impacts primarily devised to reduce the effects of corporate relocation. Some local officials have begun to question their past responsiveness to corporate needs. Faced with the sudden shutdown of two of three J.P. Stevens plants in Great Falls, S.C., the mayor declared:

It's a first class shaft; there wouldn't be no J. P. Stevens without Great Falls and no Great Falls without J. P. Stevens. One's indebted to the other. They've kept all the industry out of here, owned all the land, monopolized the labor force and controlled this town lock, stock and barrel. (Allee 1981)

Repeated instances of impacts and many second thoughts by municipal officials quite likely lead to changes in perspective which favor economic development that is responsive to local needs. (See Carlisle 1978 for early proposal.)

Since it too is carried out in areas susceptible to plant closings and economic distress, contingency planning must expect future dislocations from external forces which the

local area cannot predict or control (Malizia 1981b). Because local planners can not control such forces, they must adopt an anticipatory stance, and begin to make advance plans for future highly probable events.⁷ Contingency planning can help mobilize an area's resources and inherent capabilities to deflect or accommodate impacts brought on by external forces. Contingency planning appraises in advance the strength of all economic sectors and anticipates prospects for plant shutdowns (Tremoulet and Walker 1980) plans potential economic redevelopment projects (Malizia 1981a) and provides community organizations and leaders with the information necessary to initiate local actions Bergman 1981c)

To carry these tasks out effectively, contingency planning will probably be conducted out of local economic development department or attached permanently to existing municipal planning and development departments. The change of emphasis expects impact program planners to move beyond their "grantmanship" skills. They must apply theoretical and practical knowledge of how their local economy actually operates, analyze key elements of that economy, and design economic redevelopment projects and policies which can be effectively implemented. (Bendavid-Val 1980; Malizia 1981a)

Under the contingency planning model, local policies toward industry labor and enterprises would respond to local need. Industrial policy would attempt to stabilize industrial sectors with the long-term goal of protecting the locality's economic base. Economic development planning is responsible for estimating what a "sustainable" level of industrial activity would be in that local economy. Knowing the structure and linkages among the full complement of remaining industries, their likely tenure, new industrial investment potential and the total need for local resources which can realistically be provided, planners would be expected to help local officials devise industrial stabilization policies geared to the realities of the 1980s and beyond.

The unavoidable loss of firms in declining areas generally frees up employees who aren't willing or able to relocate, including many at the managerial level. A local labor policy should go beyond typical measures of employee resettlement or the marketing of unemployed labor power to consideration of other possibilities. Unemployed workers are also skilled people who possess first-hand knowledge of work

⁷ Another view of contingency planning poses the central issue as an inability to predict contingent events, and stresses the need to develop plans which take maximum advantage of the opportunities which accompany any crisis (Malizia 1981b).

ses, who often know how to improve methods of production and distribution, and who occasionally are potential suppliers of investment

(savings, pension funds, foregone earnings, etc.) The relation of labor policy to the use of productive resources isn't likely overlooked if local enterprise policy is considered simultaneously. If a policy for stimulation of new enterprises is developed, it takes explicit account of the producer

held by labor. It is quite possible to size vulnerable sectors in the local economy: worker-buy outs, employee stock options, producer cooperatives, worker-community rises, community development corporations, and innovative examples of efforts to stabilize job-loss economies (Center for Community Self-Help 1981; Kelly 1976; Mahmood and 1979; Zwerdling 1978).

For many of these approaches, early involvement in the planning, financing, and implementation phases, local labor and local policies should be established before the crisis arises. Here again, economic development planners are expected to study the conditions and circumstances which account for that have successfully stabilized localities, and prepare contingency plans for their active involvement in each of the

The development activities associated with contingency planning include many of those used previously for Styles and II, but activities tend to be community-initiated. It is said that contingency planning as it began to emerge only after community-initiated efforts demonstrated a clear need for stabilization first as a device for minority to exercise economic power in otherwise local economies, community economic development has gone beyond its early concerns to worker-community initiated responses to shut-downs in the local economy.

The establishment of UDI-CDC's industrial Durham, N.C. is an example of a self-funded effort,⁸ and the extraordinary effort of all concerned with the Workers Owned Company in Windsor, North Carolina demonstrates a broad based effort to help stabilize the local economy with minority worker-owned (Bergman, Carlisle and Redmond 1979; 1980). One of the most ambitious and far reaching attempts to stabilize the local economy is the union members corporate stockholders, managers, and public officials in Waterloo, Ohio. This remarkable community-initiated effort

UDC has perhaps had greater success in making its park than in assuring that employees are treated workers fairly. See Triangle Center for Economic Justice n.d.

fort involves local planning of feasibility studies and of two public revolving loan funds, workers' planned purchase of majority shares in Bath Meat Packing Company, workers' decision to forego scheduled benefit increases, and major reinvestments of labor-based funds in modern equipment and production processes under worker-manager control (Gunn, 1980).

Style IV: Strategic Planning

This style of planning would be the logical consequence of a growing area that adopts a local perspective toward its economic development planning. Since growing areas by definition do not experience serious job loss they needn't settle for limited approaches offered by contingency planning. And since these local areas have adopted a local needs perspective, they aren't restricted to planning the recruitment of corporations which wish to relocate now and perhaps again later. As used here, the dictionary definition of strategic, minus its military sense, provides all the essential elements:

Utilization of all of a [locality's] resources through large-scale, long-range planning and development to ensure [success]. (Random House 1966)

To help ensure the successful development of a stable and prosperous economy, localities adopt a long-range view of economic development. This posture avoids the problems occasioned by rapid, almost haphazard growth prevalent in growing areas. It also allows the locality time to organize its capacity to plan for economic development and to properly accommodate desirable expansion of the economic base. Studying lessons learned the hard way in other places is well worth the time it takes, even if local business leaders become bit impatient with the deliberate approach. A long-term view fosters open discussion and full consideration of plans and policies which affect all segments of the community.

Strategic planning also necessarily entails a large-scale effort to deploy available resources. This does not mean heavy doses of municipal expenditure or large federal subsidies; in fact, it could reduce current expenditures from all sources and lower the risks of heavy long-term public and individual costs. Instead, large-scale effort is a term which implies that economic development be considered objective for all ongoing municipal functions. The full set of regulations, tax policies, public works and municipal program expenditures should be framed with long-term economic development objectives firmly in mind. A strategic view of planning would put planners in particularly close touch with budgets, tax policies, public procurement, expenditure patterns and public finance. Where these functions are

now essentially managed with conflicting or no explicit policy direction, strategic considerations would call forth a form of local economic planning. The institutional setting for this strategic guidance consists of local economic planning unit that is placed close to these going municipal functions. A large scale, comprehensive approach boils down to doing the everyday business of local government with one additional long-term objective firmly in mind: economic development.

A policy of industrial integration falls logically into place with this style of economic development. Integration refers first to an inherently logical and desirable mix of industrial sectors, given local resources and other determining factors which economic development planners and officials routinely appraise. The full powers of local government would also be integrated to provide essential public support assistance, and incentives to preferred industrial sectors, and to do so with dispatch and timely cooperation. Finally, the inherent strengths and vitality of business industry groups (chambers of commerce private industry councils industrial development commissions) which comprise the area's private sector would be harnessed propulsive forces in local economic development activities. To draw on this strength without also succumbing to its traditional influence, localities must be prepared to negotiate openly with private sector interests on matters where business industry involvement is critical, but also be prepared to know where such involvement properly ends.

Now a growing locality preserves its public perspective on the 'a long-term needs and reflects more than the pressing concerns of the private sector is question of central importance. A moment's reflection the passive--but often determining--role played by labor in traditional styles of economic development suggests that labor policy may provide the answer.

Labor integration as a local policy would expect workers and their organizations (unions, professions, consumer groups etc. to represent long-run interests in desirable types of beneficial work and wage income available in a locality, and to do from direct understanding of the everyday realities of working in modern business enterprises. This representation might be "integrated" with that of business groups and public officials in an economic development council or some other tri-partite advisory framework.

Labor policy should also establish explicit positions concerning the traditional aspects of local employment planning, i.e. the availability of labor job placement, job mobility, occupational safety and training. These are policy concerns which supercede any particular programmatic vehicle (eg. CETA) or prevailing program model (eg. human capital), particularly for

localities which adopt a local needs perspective. For many reasons--including the roles played by local secondary schools and colleges--training policies deserve careful attention. Work force must of course hold requisite labor skills but training might also provide worker awareness of labor interests in economic development issues, in productivity enhancement and innovation, and in opportunities for worker initiated enterprises. Thus labor policy anticipates more active and direct involvement of the work force in economic development.

Finally, localities would be expected to adopt a neutral position with respect to enterprise type. Neutrality would mean that local government policies, taxes regulations--nearly all acts subject to local decision making--would favor no enterprise form in particular. Thus, corporations, franchise business, small businesses, cooperatives community-worker enterprises and all other potential forms of economic enterprise would find themselves on equal footing with respect to local economic development. Such policy will doubtless require actions by localities to reduce favored treatment to some enterprises and to increase it for others. Recent congressional mandates to the Small Business Administration are a case-in-point at the federal level. Congress now requires the SBA to explicitly allow cooperative forms of enterprise to benefit from its programs; this is a simple example of the changes which localities might need to adopt.

The intervention model proposed here is one of publicly initiated development. A very active public role is envisioned, one which orients many public actions toward economic development which attaches sophisticated strategic planning function to appropriate departments and agencies and which promotes integrated policy positions the part of major actors. There is evidence that localities are considering the adoption of some of these features but no place has adopted a fully developed version of Style IV economic development.

Elaboration of Styles in the 1980s

The four styles were discussed in the historical order in which they appear. Their evolution has resulted in large part from the increased velocity of capital mobility and the attempts of localities to gain control over their fate. The collective experience of many hundreds of local which work to develop their economies will become widely known to economic development officials and planners throughout the coming decade. That experience will probably not resemble the pure stylistic forms presented above. It is unavoidable that perspectives which favor corporate and local needs will exist side by side in the same locality. Similarly, nearly every area is com-

prised of industrial sectors which are growing and others which are declining. Thus, most areas will exhibit simultaneously two or more styles of economic development.

It is quite unlikely that planners can remain as complacent or indifferent to questions of economic development as they did a decade

ago. The careful planner will want to sort through emerging trends and experiences of others to identify the styles which to work most effectively in different situations or circumstances. Indeed, the main task facing planners in the 1980's will be one of assisting localities to purposefully guide the rush of economic events for maximum public advantage.

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ECONOMIC DEVELOPMENT IN JOB LOSS COMMUNITIES

PLANNING GUIDE FOR CITIZENS,
COMMUNITY PROFESSIONALS, AND
PUBLIC OFFICIALS

by
EDWARD M. BERGMAN

ATTACHMENT 2

**ECONOMIC DEVELOPMENT IN JOB LOSS COMMUNITIES:
A PLANNING GUIDE FOR CITIZENS, COMMUNITY PROFESSIONALS
AND PUBLIC OFFICIALS**

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PURPOSE OF GUIDE

This Guide is written to help citizens, community professionals and public officials work together to improve the economic well being of people who live in job-loss communities. It discusses the way people can learn how to deal with the main problems and opportunities which arise in these communities. Finally, the Guide refers the reader to other useful sources of published information and direct assistance which are readily available.

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CAUSE FOR CONCERN

Understanding Job Loss Effects on a Community

Am I the only one who has noticed that our area is suddenly faced with a lot of plant shutdowns and permanent layoffs? I thought this only happened up North!

Our community has always been a solid and stable place to live. What will become of it as more and more local jobs are lost? What will happen to the families of workers who lost their jobs?

Is there something we can do to avoid painful community adjustments or to make sure that jobless workers can be hired in other industries?

These questions and many more are being asked by citizens in communities throughout North Carolina that are experiencing painful job losses. And well they should, for the harmful effects on workers, local business and community life have been well documented. Workers and their families become physically and emotionally impaired: serious increases in mental illness, spouse or child abuse, divorce, suicide, weight change, hypertension, alcoholism, ulcers, and in blood pressure, cholesterol and uric acid levels have been directly associated with job loss.

The obvious loss of income and savings also presents a major financial crisis for jobless families, including the threat of having personal belongings and homes repossessed or the risk of an extreme loss in market value of owned homes. Drastic reduction of income available for purchasing food and all other family necessities lowers a worker's standard of living below accepted--sometimes minimal--levels. In turn, reduced consumer spending quickly shows up as loss of revenue for local business, some of which may not survive.

With less income available to families and local businesses, the community's tax base shrinks at the very time that additional social service burdens are being placed on local government. The burden is particularly heavy if job

loss is due to the shutdown of a plant that once contributed sizeable tax payments or that was provided with expensive public improvements such as sewers, water systems or roads which the community must continue paying for with reduced tax revenues.

If these are the effects of job loss, just how widespread is the problem in North Carolina? First, jobs in North Carolina continue to grow, on average, and job loss is not a major statewide problem. But average job growth does not mean that new jobs are added to the supply of existing jobs everywhere throughout the state. Of the state's one hundred counties, 42 experienced job losses in the two year period of 1977-1979. N.C. Department of Commerce figures for this two year period show that at least 15,000 jobs in 91 establishments were permanently lost due to plant shutdowns or permanent layoffs. During that same period, total employment in the state grew by about 35,000 jobs. So, for every three jobs gained in the state between 1977 and 1979, one was lost. More recent Department of Commerce figures show that job losses are even greater in the 1979-81 period; 22,655 jobs in 80 establishments were lost, the majority of them (56%) affecting 45 counties in the state during 1981.

Job loss would be much less a problem if three jobs were gained in the same communities where each job was lost, particularly if the local job losers were hired for the new openings, instead of workers from outside. But, as we will show later, some areas in North Carolina which lose jobs do much better than others in gaining new jobs. Because job loss areas gain new jobs at very different rates and must therefore approach economic development quite differently, this guide will also distinguish among areas according to the severity of their job loss problems.

Citizen Guidance of Economic Development

Citizens do frequently become involved in matters concerning schools, streets, recreation, and all the other factors that affect where and how they

live. They are much less frequently involved in matters concerning overall employment and job opportunities in their locality. Most communities have traditionally counted on local businesses, Chambers of Commerce or the State to help stimulate the expansion of good jobs. But the persistent and severe patterns of job losses in many North Carolina communities suggest that economic development is becoming a major public issue in these localities.

Recent studies show that decisions about whether new industrial job opportunities are made available in a community and whether plants and production facilities will expand or contract in the future are actually made outside most communities. These decisions are made by large corporations which own the plants and which continuously consider alternative plant sites worldwide. Because local businesses and Chambers of Commerce have virtually no control over these external decisions, they too are adversely affected by job losses and can do little to avert or even survive them. The State's industrial expansion programs can point prospective industries to needy communities, but a firm can't be compelled to locate there if it chooses not to. Local businessmen cannot reverse the flow of dollars spent and invested elsewhere by successful residents who relocate to seek opportunity in growing areas. Nor can local businesses with declining revenues offer young people from the community job opportunities with secure futures. (To learn more about the causes of job loss and what other communities have done, see Part A of Appendix.)

Does this mean that nothing can be done and that some communities must remain permanently stagnant, decline or eventually die off? Scores of communities throughout the country have answered a qualified "no"! That is, communities can survive and prosper if those most affected--workers, community leaders, small business owners--are willing to take an active role in the economic development of their area. Such a role goes much beyond voicing concern through familiar forms of "citizen participation" and gets more to the nature of what might be called citizen guidance.

A Potent Partnership of Citizens and Community Professionals

Citizen guidance is a term which refers to active citizen involvement in public forums where general policy goals are decided, where specific strategies for economic development are established, and where publicly supported development activities are carried out. State and local governments are required to provide specific opportunities for citizen guidance by opening meetings to the public, by giving public notice of meetings, by allowing public access to important records, documents or information, and by considering the recommendations of appointed boards and commissions. The ability to use these common means of citizen guidance is generally quite low even where they have been applied to familiar community issues. But there is even less citizen familiarity with economic development and therefore almost no experience with its guidance.

How then are citizens to guide economic development in their communities? The argument made in this guide is based entirely on the idea that in every community there are committed people who are associated with long-standing, well-established groups and institutions. These people and their groups are potentially capable of mobilizing citizens around many community issues, including job expansion, community survival and economic development. Churches, legal service offices, League of Women Voters, area colleges and universities, Community Action Programs, County Agricultural Extension Offices, Civil Rights Commissions, and Chambers of Commerce are some examples. The length of this list and the degree of commitment of its membership varies from place to place. And while the individuals and groups on this or any other list could hardly be expected to agree on most issues, it is quite possible that nearly all would agree on the need to take strong action when job losses threaten a community.

Accordingly, the people who serve these organizations might be thought of as "Community Professionals." They are deeply committed to the community and work for its betterment. Often their immediate concern is for the well-being

of various important segments of the community. They know their own constituents' needs as well as the overall needs of the community; they are generally known or recognized throughout the community; they work out of established places that are familiar to many citizens; they are skilled in using public or civic policy forums; and they are able to gather, interpret and help apply outside sources of information and assistance. As such, they are visible, credible, loosely representative, generally permanent and are widely known for their involvement in important community affairs. In short, they are *"Community Professionals"* who have the skills and commitment that are potentially useful in bringing resources, citizens and information together in ways that produce action. As a matter of convenience, "citizens" will be referred to throughout the rest of this Guide, but it should be understood that "Community Professionals" are included as well.

To assist citizens and community professionals, this guide will provide three kinds of information. First, the main body of the text will present an understandable account of the main issues which are most often of concern to citizens in job loss communities. Included in this account are the views or perceptions held by local economic development officials concerning these issues. Second, the guide will also refer at various points throughout the text to additional sources of published information which are written specifically for citizen use; these other sources develop many of the guide's main points in greater detail. Third, the guide anticipates that citizens and community professionals may want to move quickly from the stage of becoming informed to being involved in remedying a job loss situation. Therefore, a selected directory of organizations and individuals that can offer useful assistance has been provided. Both the information references and assistance directory will be presented at the end of the guide for convenience.

OPPORTUNITIES FOR INVOLVEMENT

Local Public Economic Development

If citizens hold any views about economic development, most just think that it happens spontaneously and--like the weather--that there isn't much anyone can do to influence it. Others may think that local businesses are totally responsible for local economic development and that the remaining members of the community or local government are uninvolved. There are grains of truth in such beliefs, but only a few. *The fact of the matter is that a considerable amount of local public resources under citizen control is devoted to activities that support economic development.* Here are a few examples.

First, long-term public investments in the size and type of water and sewer systems, streets, roads, bridges, utility extensions, ports or harbors and other facilities used by industries are designed and built with economic development purposes firmly in mind. Such investments require voter or elected official approval of long-term capital budgets of anticipated tax revenues or the public sale of revenue bonds to finance the projects. Second, local tax dollars are frequently spent on vocational education, skill training, day-care for children of working families, or for other social services which improve the quality and size of the labor force. Closely related are what some call "hidden tax expenditures"--the unofficial under-assessment of property and reduction of taxes paid by industries and businesses which agree to operate in the community. Finally, efficient patterns of private development are encouraged through zoning, building regulations and other development controls. This is only a brief summary of such activities, but it does serve to illustrate the depth and complexity of public involvement in economic development which often goes unrecognized.

Public Economic Development Planning

The many activities which use local tax dollars, levies, laws and regulations to support economic development must be skillfully planned and

organized to bring maximum, permanent benefits to the entire community. The public agencies responsible for this are attached to various bodies at the city, county or regional level. For example, these agencies may be:

- overall planning and development departments of local government;
- federally funded program offices which operate at the local level (specifically, an EDA Economic Development District agency, or a CDBG program office);
- locally established authorities or development corporations (for example, county industrial revenue bond authorities);
- independent commissions with publicly delegated powers (for example, economic or industrial development commissions).

At present, these agencies receive their main policy guidance in the form of goals and objectives from one or more of the following sources: a locally elected body, a public administrator who is accountable to elected officials, an appointed advisory board, state or federally mandated citizen participation and direct, unsolicited influence from various segments of the community.

Even though most citizens may currently be quite unaware or uninvolved in the process, public economic development efforts are potentially very sensitive to citizen scrutiny and guidance. Public officials and economic development staff keep closely attuned to public sentiments where the welfare of a substantial proportion of the population is at stake. As we shall later see, how citizen goals and preferences are received or heeded by these agencies should be a major concern of citizens who want to help guide local economic development.

The officials who work in these agencies are responsible for translating publicly expressed goals and objectives into planned economic development strategies and for eventually carrying out desirable projects and programs. Several types of skilled personnel are expected to perform a series of important tasks. (See Perspective Box 1 for a breakdown of officials in job loss areas.) First, a spokesperson from one or more policy-guidance bodies helps translate publicly expressed economic development goals into specific objectives. Next, economic development planners further translate these goals

PERSPECTIVE BOX 1

Local officials who conduct economic development activities in agencies were asked to identify their role within the E.D. agency.

<i>Role Within Economic Development Agencies</i>	<i>Officials Role, by Area (Percentage Identified)</i>		
<i>Staff support personnel from unit or office other than E.D. agency</i>	0	9%	25%
<i>Administrative officer who manages or directs E.D. agency</i>	30%	36%	25%
<i>Chairman or member of board, commission, panel, committee or other policy-guidance body for E.D. agency</i>	30%	9%	25%
<i>Agency analyst or planner involved in analysis, planning, or design of E.D. agency policies</i>	40%	43%	25%
	<u>100%</u>	<u>100%</u>	<u>100%</u>
	Area	Area	Area
	1	2	3

and objectives into alternative economic development approaches; this is done by examining overall job needs, by analysing the makeup of the local economy, by evaluating the results of other communities' approaches to economic development, and by designing realistic approaches which are suited to the local area. This critical series of steps in the total process is often overlooked or hastily executed, and many unsuccessful economic development efforts collapse because of such oversight. Finally, the implementation of selected economic development projects or programs are carried out by competent managers and administrators. All are key personnel and together they are responsible for conducting economic development in the public's interest. (Citizens can readily obtain non-technical guides to economic development planning which pose the issues clearly and describe how the public's goals are included in development plans; see Part B of Appendix.)

The absence of citizen involvement in the past has led to traditional patterns of influence on economic development officials which citizens should be made aware of. Therefore, the views of economic development officials will be presented throughout the rest of this guide so that citizens can better understand prevailing practices and be better able to influence them. The views were gathered by a survey of officials conducted in late 1980 and early 1981. To distinguish the views from related discussions in the main body of the guide, they will be presented in a series of separate "Perspective Boxes" next to the printed text. Since local officials are likely to see things differently in areas having more rather than fewer jobs lost, the perspectives are separated for officials from major (area 1), moderate (area 2), and modest (area 3) job loss areas in the state.

Local Economic Development Planners

While all these tasks are carried out by key personnel, the tasks performed by local economic development planners deserve special attention. Planners typically operate midway between publicly expressed goals and the actual development programs which are administered in the public's interest.

Planners are ultimately responsible for translating public goals into potential economic development strategies that are based on an accurate understanding of the local economy. Planners risk a fatal loss of credibility if they do not analyze a local economy sufficiently well to understand its patterns and potentials, or if they are unable to show clearly and convincingly how such understanding allowed them to translate goals into specific actions. However, planners are seldom called upon to explain these important connections. And citizens seldom call upon planners or get involved for many reasons. Perhaps one of the principal reasons citizens are not more involved can be traced to the fact that this important task is sometimes short-circuited and is therefore not actually performed. Instead, economic development options are selected independent of demonstrated need or preference and

then "justified" on the basis of simplistic guidelines which program planners are expected to follow. These guidelines require only superficial analysis and very little understanding of the local economy to qualify their areas for program funding from state or federal sources. EDA, CDBG, UDAG, CETA-PIC, FPHA are a few of the program acronyms of recent vintage which are familiar to many planners, but less familiar to citizens. And, since program planners speak and use a private language or "jargon" peculiar to each of these programs, citizens find it difficult to dig beneath layers of bureaucratic language to examine underlying assumptions. This tends to discourage citizen involvement to a considerable degree.

The resultant absence of citizen involvement is quite unfortunate because it cannot then supply the incentive necessary for public officials to insist that the important planning steps be taken seriously. *And these planning steps are important because they bring skilled analysis and understanding of a situation to the attention of a public which must ultimately bear the consequences of any chosen option.* Before the public underwrites any economic development activity, everyone concerned needs to know the results of all the steps which lead up to the final decision. By now it should be clear that planners are responsible for presenting a clear and understandable analysis of the local economy, including an enumeration of all related problems and needs. Perspective Box 2 summarizes local officials' views of the importance of technical analysis and planning.

After planners complete their analysis of the locality's unique characteristics, a variety of strategies--or ways of dealing with these problems--should be examined. Formulating strategies depends heavily on the soundness of analysis which planners use to help determine the type of industries and businesses that would be best for the local economy. Linking these considerations and strategies is more important than is commonly recognized. It is important because economic development strategies do affect an area's industry

PERSPECTIVE BOX 2

Since many local economic development agencies frequently enact policies and programs based on technical analysis and planning, local officials were asked their views on the importance of planning and technical analysis to making sound economic development policies.

<u>Importance of Technical Analysis and Planning</u>	<u>Officials' Views, by Area (Percentage Preferring)</u>		
Critically important	20%	33%	23%
Very important	60%	33%	54%
Somewhat important	20%	25%	23%
Minor importance	0	9%	0
	<u>100%</u>	<u>100%</u>	<u>100%</u>
	Area	Area	Area
	1	2	3

and business mix, and certain mixes are more beneficial in some areas than in others.

Although citizens are seldom aware of all these important steps, planners and public officials should be asked to document how each step was carried out and to share their views with citizens of what the development implications are. Planners and public officials will be more likely to conduct the necessary study of factors that affect the local economy if community citizens express a desire to review the local implications of a well-thought through plan.

Job Losses in North Carolina Counties

The effects of job loss on communities and estimates of the general magnitude of the problem have already been discussed. However, not all local officials are aware of the problem across the state or even within their local areas. Perspective Box 3 summarizes the extent to which local officials actually recognize job loss as a local problem. What is needed now is a clearer understanding of where jobs are lost and how job losses affect some areas more than others.

PERSPECTIVE BOX 3

After noting the recent rise in plant shutdowns and permanent layoffs in North Carolina, local officials were asked how important this problem was in their area

<u>Plant Shutdown and Permanent Layoff Problem</u>	<u>Officials' View, by Area</u> <u>(Percentage Indication)</u>		
No problem	11%	0	24%
Minor problem	44%	50%	60%
Major problem	45%	50%	16%
	100%	100%	100%
	Area	Area	Area
	1	2	3

We can first consider where job losses occur in terms of the industries affected. Few readers will be surprised to learn that North Carolina's traditional manufacturing industries are the main losers: textiles, apparel, tobacco, furniture and food processing. Together, these five industries accounted for about 90% of the 14,915 recorded job losses between 1977 and 1979, but textiles and apparel together are responsible for about 75% of all jobs lost. (Some of the reasons for job loss are discussed in Sources listed in Section A of the Appendix.)

If these are the big industrial losers, then we can naturally expect losses to be higher in those parts of the state with high proportions of jobs in the textile and apparel industries. Looking first at losses in the three main regions of the state, nearly half of all jobs were lost in the piedmont, a third on the coast and about a fifth in the mountains. Job losses were split in quite similar proportions among places of different size; that is, half of the jobs were lost in localities with 10,000 or fewer people, another third was lost in the next largest groups of localities (between 10 and 50 thousand), and a fifth was lost in the largest metropolitan areas (over 50 thousand population). These figures suggest that areas most heavily affected

are small communities in the mountain or coastal regions, particularly those places with large amounts of textile or apparel employment.

Of particular interest to users of this guide is the map on this Guide's rear cover sheet that identifies specific counties in North Carolina that experienced job losses and the seriousness of those losses. Recall our earlier note that 14,915 jobs were lost in North Carolina between 1977 and 1979. It is important to stress again that only some parts of the state lost jobs and that average employment in the state rose by about 35,000 jobs. To be more precise, the 14,915 jobs were lost in 42 counties while overall employment gains were registered in nearly all the counties. Since our concern here is with the 42 counties which experienced job loss, we will take a closer look at them to see whether the severity of losses differed enough for citizens in these areas to approach the problem in their area differently.

Three kinds of evidence were used in determining the seriousness of job losses. First, the 1977-79 job losses were examined to see which counties had the highest proportions of total jobs lost and manufacturing jobs lost. Second, the counties which lost jobs were studied to determine which of them still had high proportions of textile and apparel employment, the industries with greatest potential for future losses. Third, each county's recent employment growth rates and projected growth rates were compared to detect longer term trends. When these types of evidence were put together, they indicated that the 42 counties were sufficiently different to divide them up into areas.

Area 1 consists of the 12 counties which lost the most jobs, had the most jobs remaining in textiles and apparel or whose growth trends showed only slight chances for overall improvement. Area 2 includes 10 additional counties which scored better on all counts, but still experienced serious job loss problems. The 20 counties in area 3 were clearly better off than those in areas 1 or 2, and in fact included some of the state's most rapidly growing

centers which only recently began to "shed" some of their traditional industrial employment as they upgrade their industrial base.

Economic Problems in Job Loss Communities

In preparing this guide, official figures supplied by state agencies were used to classify job loss counties. Economic development officials from these counties were then asked whether they thought the recorded losses were a problem. (Perspective Box 3 provided a summary of their views.) The views recorded here are helpful to citizens who need to know how officials now stand on the matter, but these views should not be thought of as the final word. Some who do not view job loss as an important problem may not be in touch with the people most affected, while others may be fully aware of its impact but consider other problems as more important.

In getting a better sense of what other kinds of economic development problems might be important, officials' views on the amount of available work and the quality of jobs offered as compared to the state as a whole were collected. To find out about the amount of work, we asked if sufficient jobs were available for residents, if youth or minority unemployment was high, or if poverty was a problem (higher indicator values mean fewer problems). Views on low wage levels, unsafe working conditions, and unstable or seasonal work opportunities were sought to determine the quality of job opportunities. (See Perspective Box 4 for perceptions of other problems in job loss counties.) Some of these problems are directly associated with job losses while others are completely unrelated; but expressions of concern for all such problems by economic development officials may also affect their views of job loss as a problem. It is important for citizens to discover first-hand what views of problems are held by officials in their particular locality and to begin discussing these problems from all points of view.

PERSPECTIVE BOX 4

<i>Local Problems Compared to State</i>	<i>Views of Officials, by Area (Average Severity Indicator*)</i>		
	<i>Area 1</i>	<i>Area 2</i>	<i>Area 3</i>
a. Poverty level	2.6	2.4	3.0
b. Insufficient jobs for residents	2.6	2.4	3.0
c. Available jobs are seasonal or unstable	3.0	2.7	3.3
d. Low wage levels	2.2	2.9	3.1
e. Unsafe working conditions	3.0	3.2	3.4
f. Too few locally owned businesses	3.3	3.5	3.5
g. Insufficient tax base	2.6	2.9	2.7
h. Lack of skilled workers	2.9	2.5	2.3
i. Lack of business capital	2.6	2.6	2.5
j. Youth unemployment	2.7	2.3	2.1
k. Minority unemployment	2.6	2.5	2.8
l. Undiversified industry mix	2.3	2.5	3.0
	<i>Area 1</i>	<i>Area 2</i>	<i>Area 3</i>
	1	2	3

*Key to Severity Indicator Values:

1	2	3	4	5
Much Worse	Somewhat Worse	About Same	Somewhat Less	Much Less

Strategy Options in Local Economies

Development of local economies can be approached in many ways, but two general types of strategies--capturing external resources and developing local resources--encompass most alternatives.

If a locality tries to capture external resources, the strategies focus on the attraction of business, capital, managerial "know-how" and skilled manpower from other areas. It should be noted that industrial recruitment or "capture" is a narrow version of this traditional economic development strategy which is familiar to most North Carolina officials and to many citizens. When successful, the strategy introduces relatively large and sudden infusions of economic growth and activity. This prospect generally

calls for substantial public investments in permanent facilities such as wastewater treatment to accommodate the rapid growth. The risks in pursuing external resources are two-fold and deserve careful thought. First, there is limited opportunity for citizen involvement during the process since the entire strategy hinges on the decisions of people outside the locality. Second, the reasons why industries were first recruited to the area could later change and the original job growth might become future job losses. Many North Carolina communities are facing exactly that problem today.

Because these risks can be reduced by careful thought and planning, citizens will doubtless want to know what steps are being taken by a locality that chooses to pursue this strategy. Preferences for recruitment strategy by local officials are summarized in Perspective Box 5.

The other main strategy focuses on the further development of resources currently found in the locality; it is sometimes called "interior economic development." The activities often include efforts to expand existing industry, encourage small business development, and to support community development corporations or similar community enterprises. When successful, this

PERSPECTIVE BOX 5

Local officials were asked to judge the suitability of recruiting new business and industry from out-of-state as economic development strategy

<i>Suitability of Industrial Recruitment</i>	<i>Officials' Views, by Area (Percentage Preferring)</i>		
<i>Perfectly suited</i>	40%	25%	28%
<i>Well suited</i>	40%	58%	44%
<i>Moderately suited</i>	0	17%	4%
<i>Poorly suited</i>	20%	0	12%
<i>Unsuited</i>	0	0	12%
	<u>100%</u>	<u>100%</u>	<u>100%</u>
	Area	Area	Area
	1	2	3

strategy gradually plants the roots of economic development deeply and spreads its benefits broadly throughout the community. The risks in pursuing interior economic development are several, but most pertain to the obvious difficulty of trying to build on local resources in a stagnant or declining economy. However, since so much of what must be done here relies heavily upon community support and involvement, citizens can play early, active roles in pursuing this strategy. To do this effectively, it is useful for citizens to find out how local economic development officials view the several components of this overall strategy. Perspective Box 6 provides initial clues about the willingness of local economic development officials to develop their economies with local resources.

Up to this point--and generally throughout this Guide--the basic principles of economic development in job deficient communities remains our focus. But these principles and the strategies which they suggest should not be thought of as vague ideas about economic development. Depending on how well they are formulated, the strategies should provide a clear development rationale and point the way toward combining a desirable mix of industrial

PERSPECTIVE BOX 6

Local officials were asked to judge the suitability of encouraging existing businesses to expand their operations and of establishing community economic development corporations as economic development strategy.

<i>Suitability of Business Expansion and Community Economic Development</i>	<i>Officials' Views, by Area (Percentage Preferring)</i>		
<i>Perfectly suited</i>	10%	17%	15%
<i>Well suited</i>	30%	42%	32%
<i>Moderately suited</i>	50%	42%	44%
<i>Poorly suited</i>	10%	0	3%
<i>Unsuited</i>	0	0	0
	100%	100%	100%
	Area	Area	Area
	1	2	3

sectors and business enterprises in the local economy. This, then, is a good time to take a closer look at the targets of economic development. What specific industrial sectors are of interest? Which types of firms or enterprises are preferred? Perspective Box 7 reveals preferences by local officials for types and sizes of firms, while Perspective Box 8 summarizes the industrial sectors which they consider most important.

To get a good idea of the sectors and enterprises that are seen to be important by local economic development planners, citizens should ask which ones are considered most appropriate for their area. Citizens should then examine these views closely to discover and understand the rationale behind them. Are the preferences of development officials based on the known performance of some mix of industries and firms? Is the performance expected by them consistent with goals for the local economy which are held by affected citizens? Are some mixes more likely to occur than others? These are specific questions that must be asked by citizens and answered by economic development officials in each locality, for no general set of answers holds for all areas. Readers who want to acquire a working knowledge of these

PERSPECTIVE BOX 7

Preferences for types and sizes of firms shown below reveal local officials' views of which enterprise actors are most likely to play an important role in their area's economic development.

<u>Types and Sizes of Firms</u>	<u>Officials' Views, by Area</u> <u>(Percentage Preferring)</u>		
	Area	Area	Area
	1	2	3
<i>Large branch plants</i>	100%	76%	69%
<i>Major corporation headquarters</i>	0	8%	3%
<i>Local franchise business</i>	0	0	0
<i>Locally owned plants</i>	0	8%	8%
<i>Small businesses and firms</i>	0	8%	20%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

PERSPECTIVE BOX 8

Economic development officials thought these were the most important industrial sectors for their areas:

<i>Preference</i>	<i>Officials' Views of Industrial Sectors, by Area</i>		
<i>First Importance</i>	<i>Electrical/Electronic Equipment</i>	<i>Agriculture</i>	<i>Electrical/Electronic Equipment</i>
<i>Second Importance</i>	<i>Lumber and Wood</i>	<i>Tobacco, Fabricated Metal, Electrical & Electronic Products</i>	<i>Non-Electrical Machinery</i>
<i>Third Importance</i>	<i>Food, Tobacco and Paper Products</i>	<i>Construction, Trucking and Warehousing, Utilities</i>	<i>Fabricated Metal Products</i>
	<i>Area</i>	<i>Area</i>	<i>Area</i>

important points should get additional information from one or more of the sources listed in Section B of the Appendix.

Influence on Economic Development Policy

In any activity supported by local government which involves highly technical considerations, citizens often feel unable to evaluate the effect of proposed actions or to become involved in guiding them. The absence of direct citizen involvement and guidance is partially compensated for by the involvement of other groups. Such groups are officially recognized as being responsible for offering policy guidance in the economic development of a locality. Many types of groups offer guidance. Locally elected bodies either offer direct guidance or designate some responsible administrative official who is accountable to them. Advisory boards and commissions are frequently appointed by elected officials or their administrators, while some state and federal programs stipulate procedures for citizen involvement in the policy-making process. Perspective Box 9 summarizes important sources of policy guidance for each type of job loss area. Official policy guidance comes from

PERSPECTIVE BOX 9

Local officials work through E.D. agencies which are given policy guidance from several possible sources.

<i>Source of Policy-Guidance</i>	<i>Officials' Views, by Area (Percentage Indicating)*</i>		
	<i>Area</i>	<i>Area</i>	<i>Area</i>
<i>Locally elected body</i>	40%	17%	19%
<i>Public administrator accountable to elected officials</i>	30%	42%	35%
<i>Advisory board appointed by administrator or elected officials</i>	30%	58%	39%
<i>State or federally mandated citizen input</i>	20%	8%	19%
	<i>Area</i>	<i>Area</i>	<i>Area</i>
<i>*Total for each area can exceed 100%</i>	1	2	3

all these sources, although citizens will readily discover that some are more represented or influential in a particular area than others.

In addition to establishing official policy guidance groups, local government also conducts its public economic development activities through one or more agencies. These agencies are staffed by the various personnel referred to earlier—that is, administrators, planners, analysts, program managers—and they are generally employed in public agencies, although local government sometimes delegates economic development activities to Chambers of Commerce and industrial development commissions. The public agencies are of three general types: local agencies which are based entirely on the availability of state or federal programs (Community Development Block Grant agencies), regional agencies which provide direct support to localities (Local Regional Organizations and field offices of state agencies), and local government agencies (planning and development agencies, industrial revenue bond authorities). Depending on their level of funding and powers, these agencies conduct many different activities. In their official capacity as

agencies responsible for promoting the public's interest in economic development, they also tend to reflect political influences in the community. A general mapping of the most influential groups in each area is provided by Perspective Box 10.

Citizens will want to know whether public agencies base their economic development activities on evidence and findings which economic development planners provide or whether activities respond to the influence exerted by a politically powerful factions in the community. Perspective Box 11 suggests the way policy-making boards are likely to lean when confronted by conflicting recommendations based on technical evidence versus businessmen's insights. While planners and business factions reach similar recommendations for action in some situations, inherent differences in public vs. private sector orientation can lead to opposite viewpoints. Citizens will want a full accounting of the logic and evidence which underlies alternative policy

— PERSPECTIVE BOX 10 —

Local officials were asked to indicate which groups would be most likely to influence their E.D. agency's policy regarding a difficult or controversial issue.

<i>Group With Most Influence on E.D. Agency Policy</i>	<i>Officials' Views, by Area (Percentage Indicating)</i>		
<i>Workers and Labor</i>	0	9%	0
<i>Chamber of Commerce</i>	0	0	17%
<i>Elected Officials</i>	50%	91%	54%
<i>Big business and industry</i>	30%	0	25%
<i>Citizen action groups</i>	10%	0	0
<i>Professional community (doctors, lawyers)</i>	0	0	17
<i>Other</i>	10%	0	0
<i>Not indicated (newspapers, small businesses)</i>	0	0	0
	<u>100%</u>	<u>100%</u>	<u>100%</u>
	<i>Area</i>	<i>Area</i>	<i>Area</i>
	1	2	3

PERSPECTIVE BOX 11

Local officials were asked to indicate if their policy-making board is more likely to rely on technical evidence from a staff planner or businessmen's insights when trying to reach an important decision.

<i>Board's Reliance on Type of Information</i>	<i>Official's Views, by Area (Percentage Indicating)</i>		
<i>Clearly prefer technical evidence</i>	0	0	0
<i>Favor technical evidence, but value businessmen's insights</i>	10%	42%	28%
<i>No clear preference for either type of evidence or insight</i>	20%	8%	20%
<i>Favor businessman's insights, but value technical evidence</i>	60%	42%	52%
<i>Clearly prefer businessmen's insight</i>	10%	8%	0
	<u>100%</u>	<u>100%</u>	<u>100%</u>
	Area	Area	Area
	1	2	3

recommendations. A full accounting is particularly necessary when the recommendations of planners and business factions coincide. An accounting for shared views is highly desirable because the basis for such views generally remains untested in the political arena while, in contrast, differences of view automatically reveal some of the logic underlying these differences.

A full accounting becomes even more desirable because of the many critical steps taken in carrying out economic development activities which require technical judgment. For example, the analysis of economic problems, the design of alternative approaches and strategies, the evaluation of effects on the community, and the effective implementation of necessary programs and projects together form a series of steps that contain both technical and political considerations.

The logic and evidence which lies behind each of these steps need not be presented merely because citizens want to review purely technical

considerations or judge the professional competence of staff. Rather, it is precisely because these steps contain so many political assumptions about how things are done which benefit some segments of the community rather than others, or which impose hidden costs on some and not others, or which take short- rather than long-range approaches. It is difficult to clearly separate technical from political considerations, even though most people understand the difference in principle; fortunately, most citizens are able to recognize the differences in practice once they become involved in the development of their local economy.

Citizens should not lose sight of the fact that their influence often depends on a practical understanding of the total economic development process, including the so-called technical questions discussed above. Citizens who gain a working understanding of economic development can quickly identify which issues are more purely technical and focus their efforts on highlighting and influencing all issues with political implications. Those who lack a working understanding are easily and all too often dismissed because it is convenient to view them as uninformed, self-interested parties. Perspective Box 12 reveals which groups are thought by local economic development officials as being least influential in establishing agency policy.

PERSPECTIVE BOX 12

Local officials were asked to indicate which groups would be least likely to influence their E.D. agency's policy regarding a difficult or controversial issue.

<u>Groups With Least Influence on E.D. Agency Policy</u>	<u>Officials' Views, by Area</u> <u>(Percentage Indicating)</u>		
Workers and labor	50%	0	20%
Chamber of Commerce	0	8%	0
Elected officials	0	8%	0
The press	10%	43%	17%
Small businesses	10%	8%	0
Citizens' action groups	0	8%	17%
Public employees	30%	8%	20%
Professional community (doctors, lawyers)	0	17%	17%
Not indicated (big business and industry)	0	0	0
	<u>100%</u>	<u>100%</u>	<u>100%</u>
	Area	Area	Area
	1	2	3

Citizen Action in North Carolina Communities

Citizens in several North Carolina communities which experienced substantial losses during the past five years have begun to take action. Recent efforts in Roxboro, Windsor, Durham, New Bern and Lincolnton reveal the attempts of concerned community members to take action when jobs are lost. (Item C in the Appendix suggests several useful guides to citizen action.) Citizens in these localities called on churches, unions, legal service attorneys, bankers, and local economic development officials to devise action plans to serve jobs and stabilize the community's economic life.

These recent efforts are known only to the few who were somehow involved. To understand the perceptions of all economic development planners regarding citizen action initiatives, we asked local officials to react to similar situations they were more familiar with. The situations which were posed actually took place in North Carolina communities during the late 1970s and generally involved citizens taking some local economic development action which expressed a preference for high wage or unionized firms to locate in their communities. As Perspective Box 13 shows, economic development officials indicate whether they considered these citizen actions to be justified or unjustified. Their perceptions provide valuable clues to citizens who want to become involved with local economic development activities. If officials in an area consider the actions depicted in the situations to be justified (lower indicator values in Box 13), then area citizens can probably expect to find many existing opportunities for involvement. For areas where such actions are seen as less justified (higher indicator values in Box 13), citizens will have to draw more heavily on the ideas and sources presented in this guide to create opportunities for involvement.

PERSPECTIVE BOX 12

Justification for Citizen Actions in Two Economic Development Issues		Views of Officials, by Area (Average Justification Indicator*)		
<p>A. Here are two examples which illustrate grass-root citizen challenges to economic development decision-making bodies. In the first, support from small businessmen, retailers and blue-collar workers in a N.C. mill town of 17,000 resulted in passage of a bond issue necessary to supply water to a newly arriving high-wage firm (over \$9 per hour), despite considerable opposition by a large textile firm nearby. In another N.C. mill town a year later (1977), the Chamber of Commerce reversed its earlier unanimous decision to welcome a large, high-wage paying firm into the area; public reaction was swift (including reaction from the Governor) and it resulted in the area's major textile firm agreeing to cooperate with the new firm that eventually located in the area.</p> <p>Justification for these citizen action challenges to existing policy-making bodies is shown by average justification indicator.*</p>		1.8	1.2	1.7
<p>B. In 1977 a plant from Pennsylvania approached the economic development commission of a small town in the North Carolina Piedmont. Although the plant paid hourly wages in the \$4-8 range, the commission discouraged the unionized plant from locating because its presence would disrupt labor-management relations in a traditionally non-union county and make it difficult to recruit other non-union firms. News of the commission's decision leaked out, and a group of citizens quickly formed to raise a petition (over 1,000 signatures in county of 26,000 population) asking the firm to locate there.</p> <p>Justification for the citizens' actions is shown by average justification indicator.*</p>		1.6	1.5	1.8
		Area 1	Area 2	Area 3
*Key to Justification Indicator Values:				
1	2	3	4	5
Clearly Justified	Probably Justified	Not Sure	Probably Unjustified	Clearly Unjustified

Citizen Access to Information

Knowledge is power! This old saying is certainly true for citizens who must first understand local economic development before they can hope to influence and guide it. And, since most of the necessary information appears technical, citizens are not generally skilled in obtaining it or learning from it. Perspective Box 14 contains a list of four common information policies available to local officials and their policy-making board's likely preference

— PERSPECTIVE BOX 14 —

Local economic development officials often adopt policies for informing the public of actions to be taken and the basis for these actions. Local policy boards and agencies were thought likely to adopt alternative stances on each of the following policies:

<u>Information Policy Alternatives</u>	<u>Officials' Views, by Area</u> (Percentage Preferring)		
• <u>Release all information available to agency and board</u>	67%	30%	65%
• <u>Release no information available to agency and board</u>	33%	20%	35%
• <u>Hold all meetings (including policy decision meetings) in open sessions</u>	70%	91%	81%
• <u>Hold all meetings (including policy decision meetings) in executive session</u>	30%	9%	19%
• <u>Issue public notice of meetings as broadly as possible</u>	30%	18%	43%
• <u>Issue public notice of meetings as required by law</u>	70%	82%	57%
• <u>Encourage press coverage and treatment of policy issues</u>	60%	60%	65%
• <u>Discourage press coverage and treatment of policy issues</u>	40%	40%	35%
<u>Totals</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
	<u>Area</u>	<u>Area</u>	<u>Area</u>
	1	2	3

for alternative positions. (Appendix Part C lists guides for citizens who want to gain information and transmit it effectively.)

One source of information useful to citizens comes directly from public meetings and hearings. It is unlikely that wholly new facts or detailed evidence will emerge from public meetings, but citizens can gain a stronger impression of how other members of the community feel about economic development. From noticing informal "cues" at meetings and hearings or by paying close attention to the intensity of discussions and the general tenor of viewpoints presented, citizens can get a good idea of what is at stake and who stands to gain or lose. However, this opportunity is available only if meetings are held in open session. North Carolina law stipulates the conditions under which meetings can be held in executive session. While a meeting may be held in open session, citizens gain nothing from the opportunity if they are unaware of the meeting taking place. Since some meetings serve as public hearings prior to contemplated actions, it is extremely important for citizens to receive timely notice of scheduled hearings. Public notice requirements for many kinds of meetings are written into law, but not all meetings are covered by these laws. In localities where meetings are generally given public notice only as required by law, citizens should take the opportunity to express their interest in having local officials give notice of all meetings which pertain to economic development. If citizens never ask to be notified, they probably won't be.

Becoming better informed and informing others requires the two-way communication which the local press can provide. Citizens should encourage press coverage and discussion of the issues, including interviews and in-depth reporting, to better inform the community of decisions which affect it. Citizen groups might also consider working with the press to have their own views made known to the full community. The careful preparation of press releases or the scheduling of news conferences are typical ways in which organized citizen groups work with the press. Since economic development is a

topic which the press tends to cover only when the political issues are sufficiently interesting or controversial to warrant such coverage, citizens must express their concern (letters to the editor, radio call-ins, etc.) to ensure responsive press coverage.

All four information policies are important for citizens, but citizens should also be aware of local officials' opinions concerning which policy is most beneficial to their agency's economic development activities (see Perspective Box 15).

Perhaps the single best source of information is the economic development agencies which serve the community. Planners and other staff in these agencies must assemble, analyze, document and interpret a large volume of raw data and other information and then present it to various policy-making groups who act on that prepared information. While the quality and relevance of agency information varies from place to place, it is probably the most authoritative source available. Citizens will want to review the evidence and data, read the various reports, documents or memoranda and discuss their meaning with the staff members who prepared the information. It is therefore important to learn whether local officials will in fact release such information.

PERSPECTIVE BOX 15

When asked to name the single most important information policy in terms of its overall benefit to the officials' agency programs of economic development, this was the result:

<u>Information Policy</u>	<u>Officials' Views, by Area</u> <u>(Percentage Preferring)</u>		
Release of agency information	20%	17%	47%
Public access to meetings	10%	17%	22%
Public notice of meetings	10%	8%	9%
Press coverage of policy issues	60%	58%	22%
	<u>100%</u>	<u>100%</u>	<u>100%</u>
	Area	Area	Area
	1	2	3

Perspective Box 16 provides initial indications of willingness by local officials to assist groups. Many times an initial reluctance will shift to a fully cooperative attitude once economic development planners are sure that citizens only want to understand the information and aren't trying to judge the competence of staff who prepare it. Staff members are usually willing to help citizens obtain this information and often take professional pride in knowing that citizens find the results of staff work useful and important.

After repeating this process of review and discussion with staff in all the local agencies--and there may be several such agencies--citizens can quickly and effectively put all their information to work when particular economic development issues are considered in meetings and other public forums. Public dialogue on specific economic development issues in any public forum is deepened when well informed citizen participants examine those issues from the broader perspective of community-wide economic development.

Community Professionals and Citizen Partnership

Previous discussion pointed out the importance of local economic development and the difficulty of citizen guidance. The economic survival of some

PERSPECTIVE BOX 16

If groups of citizens and wage earners need help in understanding local economic development questions, they might turn to local officials for assistance. The views on providing technical assistance to such groups are given by local officials in terms of its importance to helping implement sound economic development strategies.

<i>Importance of Technical Assistance to Citizen and Worker Groups</i>	<i>Officials' Views, by Area (Percentage Indicating)</i>		
<i>Critical</i>	<i>0</i>	<i>20%</i>	<i>13%</i>
<i>Helpful</i>	<i>70%</i>	<i>70%</i>	<i>52%</i>
<i>Unimportant</i>	<i>30%</i>	<i>10%</i>	<i>26%</i>
<i>Harmful</i>	<i>0</i>	<i>0</i>	<i>9%</i>
	<i>100%</i>	<i>100%</i>	<i>100%</i>
	<i>Area</i>	<i>Area</i>	<i>Area</i>
	<i>1</i>	<i>2</i>	<i>3</i>

small or vulnerable communities in North Carolina is at stake in the coming decade, as are all the cultural and social qualities of communities which rest on a stable economic base. In other localities, survival may be less a problem than fostering a shared, deeply rooted pattern of economic development which will nourish and sustain strong communities. In either case, effective citizen guidance depends heavily on the involvement of community professionals.

The involvement of community professionals is not a substitute for the emergence of grass-roots leadership or for the widespread involvement of citizens. But expanded leadership and public involvement probably depends on the initial efforts of community professionals. Their further involvement provides continuity necessary for local leadership and public involvement to become effective forces in the guidance of economic development.

Getting community professionals and local citizens together and focused on this important area of local public policy is the next step. If citizen's groups are not yet prepared to take that step, it is time for community professionals to come forward and exercise the responsibility associated with their name.

APPENDIX

SELECTED SOURCES OF INFORMATION AND ASSISTANCE

A. Job Loss and Community Choice

Many good sources of information and assistance are now available concerning job loss and communities. The following are particularly helpful in understanding why job loss affects communities and what might be done. All are recommended.

1. Corporate Flight: The Causes and Consequences of Economic Dislocation. This 94 page booklet discusses the problem generally, its impact, recent economic changes, shortcomings of present policies and where to go from here. It can be ordered from:

The Progressive Alliance
1757 N Street, NW
Washington, DC 20036

2. Stop Runaway Shops. This 30 page booklet discusses many of the same issues covered by Corporate Flight (above), but it is written in more practical language and focuses on a readership of workers from a union point of view. It can be ordered from:

Citizens Labor Committee on Plant Closures
3600 Wilshire Boulevard, #2200
Los Angeles, CA 90010

3. A Guide for Communities Facing Major Layoffs or Plant Shutdowns. This 32 page guide was prepared by the U.S. Department of Labor for use by three parties in a community affected by plant closures: managers of firms facing shutdowns, unions or groups of employees, and local job service officials. It contains valuable checklists of actions, ideas resources and further bits of information on where and how to get help. It can be obtained from:

Superintendent of Documents
U.S. Government Printing Office
Washington, DC 20402
(Stock #029-000-00391-2)

4. Employee Ownership in Plant Shutdowns. This 220 page book is a very useful summary of recent studies of community and employee ownership as a response to job loss. It includes a discussion of factors which other communities faced during job loss situations and their attempts to implement worker ownership. There are many other sources of information which provide details on how to pursue worker ownership available from groups offering assistance, but this overview is particularly useful in placing worker ownership within the community perspective. It can be obtained from:

W.E. Upjohn Institute for Employment Research
300 South Westridge Avenue
Kalamazoo, MI 49007

5. Center for Community Self-Help, Durham, NC. The Center works with citizens and communities throughout the state on issues of economic and community development. Particular attention is focused on the needs of distressed areas and workforces. The Center is prepared to offer legal and financial information for self-help groups and to assist with worker and community ownership of business enterprises.

It is affiliated with other national groups such as the Industrial Cooperative Association and the National Center for Employee Ownership; local affiliations it can draw upon include the Corporation for Democratic Business (a non-profit development bank for worker-owned firms) and the Guilford College Center for Community Enterprise Management.

For assistance, write or call:

Center for Community Self-Help
305 East Chapel Hill Street, Room 211
P.O. Box 3259
Durham, NC 27705
Phone: 919-683-3016

6. North Carolina Occupational Safety and Health Project, Durham, NC. NCOSH is a statewide membership organization of workers and health professionals concerned with occupational health and industrial recruiting issues. Information about the health impact of newly recruited industries on workers is being examined. A citizens' handbook on industrial recruitment and strategies for local action will be available in early 1983. For more information, write or call:

NCOSH
P.O. Box 2514
Durham, NC 27701
Phone: 919-286-9249

Planning Local Economic Development

These publications and sources of assistance were selected to provide insight into the local planning process, particularly planning for local economic development. They are generally non-technical guides which highlight the range of issues economic development planners and officials encounter.

1. Local Economic Development Planning: From Goals to Projects. This 34 page report is useful for anyone involved in planning for local economic development. It presents a model planning process that a community can use to examine local resources and set economic development goals and objectives. It shows communities how to identify various programs that can be used to achieve their development goals; evaluate alternate programs according to their cost and benefits;

design a plan to implement the program they choose; and evaluate the success of the total plan and its implementation at the completion of the project.

It can be ordered from:

Planners Bookstore
1313 East 60th Street
Chicago, IL 60637
(PAS Report #353)

2. How to Do Economic Development Planning. This 142 page handbook was written by the Oregon Department of Economic Development to help citizens and public officials in the state's various regions and places become familiar with the principles of local economic development planning. Its chapters include: I. Introduction, II. Organizing, III. Analysis, IV. Goals, V. Programs. It can be ordered from:

Local Planning and Community Development Division
Department of Economic Development
921 Southwest Washington
Portland, OR 97205

3. Local Economic Development Planning In An Era of Capital Mobility. This 8 page reprint discusses the new challenges local economic development planners face in North Carolina communities as some places lose plants and jobs and others experience substantial employment growth pressures. It is available from:

Carolina Planning
New East 033A
University of North Carolina
Chapel Hill, NC 27514

4. A Guide To Planning Economic Development In Small Communities and Rural Areas. This 72 page guide provides an overview of economic development alternatives and approaches available to smaller places in North Carolina. It also examines the numerous considerations necessary once specific projects are selected for planned implementation. It is available from:

Division of Community Assistance
N.C. Department of Natural Resources
and Community Development
P.O. Box 27687
Raleigh, NC 27611-7687

5. N.C. Division of Community Assistance, Raleigh, NC. The Division offers technical assistance to communities through its system of state-wide field offices and financial assistance for local economic development projects through the CDBG block grant program which it administers.

The Division works with many state and federal agencies whose programs can be used for local economic development and with local and regional agencies which plan economic development.

For further information and assistance, write or call:

Division of Community Assistance
N.C. Department of Natural Resources and
Community Development
P.O. BOX 27687
Raleigh, NC 27611-7687

Citizen Involvement in Local Planning

Citizen participation and involvement in public affairs has resulted in the availability of many helpful guides and reports. Included here is a sampling of this literature, with particular attention paid to items dealing with local government, planning and North Carolina statutes from the viewpoint of citizens who want to help guide economic development in their local areas.

1. The Citizen's Guide to Planning. This 208 page book introduces citizens and members of planning commissions to the planning process and to planning professionals. It does not examine the planning of economic development but it does touch on such related topics as capital improvement programs, commercial/industrial zoning and master plans. It can be ordered from:

Planners Bookstore
1313 East 60th Street
Chicago, IL 60637

2. Effective Use of Media. This 11 page guide provides a very concise and useful introduction to citizens who want to get their views across to other citizens and policy-makers. Included are sections on the press, radio and television, fact-sheets, brochures, events and other effective ways of making views known. It is available from:

Office of Public Awareness
U.S. E.P.A.
401 "M" Street, SW
Washington, DC 20460

3. The Right To Be Able To Know: Public Access To Public Information. This 80 page booklet examines current North Carolina statutes and practices on public meetings and public records from the citizen's point of view. It is clearly written in non-technical language for informed lay citizens, but it also offers supporting documentation and extensive references. This can be obtained from:

North Carolina Center for Public Policy Research
P.O. Box 430
Raleigh, NC 27602

4. League of Women Voters, Washington, DC. The most comprehensive source of useful information on citizen involvement in local affairs is available from the League. Carefully prepared and clearly written, these low cost reports and guides offer citizen groups valuable information about local government. A starter kit might include several of the following:

- a. Know Your Community
- b. Know Your County
- c. The Citizen and the Budget Process
- d. The Budget Process from the Bureaucrat's Side of the Desk
- e. Letting the Sunshine In: Freedom of Information and Open Meetings
- f. Anatomy of a Hearing
- g. Public Action Kit
- h. Reaching the Public
- i. Getting into Print
- j. Breaking into Broadcasting

These publications and a complete list of others are available from:

League of Women Voters of the U.S.
1730 "M" Street, NW
Washington, DC 20036

5. Citizen Involvement and Training Project, Amherst, MA. This group publishes many valuable guides and booklets which focus on effective group formation and citizen action. Of the numerous titles available, three are worth considering:

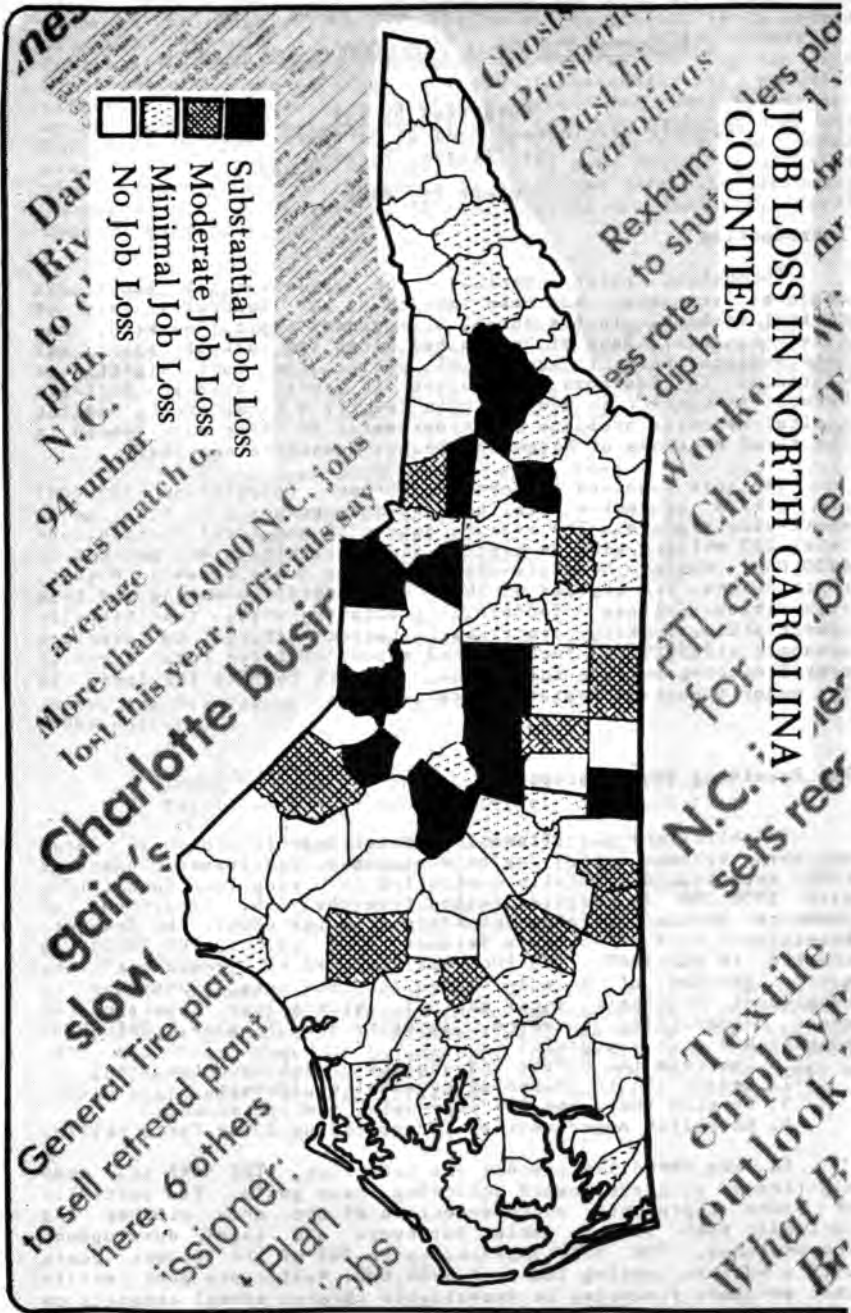
- a. Power: A Repossession Manual (getting organized)
- b. Playing Their Game Our Way (guiding government)
- c. We Interrupt This Program . . . (media involvement)

To order these and other publications, write to:

Citizen Involvement Training Project
138 Hasbrouck
University of Massachusetts
Amherst, MA 01003

6. North Carolina Chapter, American Planning Association, Charlotte, NC. For citizen members of public or semi-public governing bodies, boards, commissions or authorities who are interested in planned development of their areas. For brochure and membership application forms, write:

Fred Bogart, Membership Chairman
Charlotte-Mecklenburg Planning Commission
Cameron-Brown Building
301 South McDowell Street
Charlotte, NC 28204



THE REVOLVING LOAN FUND:

A Resource for Rural Development and Finance

Submitted by the
Economic Development Fund of Northern Vermont, Inc.
St. Albans, Vermont

April 11, 1983

Introduction

Throughout rural America, the expansion of local and regional economies has been impeded by the inaccessibility of capital markets. In its survey of regional capital markets, the First National Bank of Boston has cited the lack of short and intermediate term financing as one of the most significant obstacles to business development in rural areas.* Northern Vermont is similar to many of this country's rural areas, and its capital resource problems are symptomatic of those experienced in the rural sections of Maine and Idaho, Minnesota and Texas.

The six counties of northern Vermont (population 105,000) are served by twelve local banks and by branches of five major state-wide lenders. The average assets of the local institutions total \$23 million with an average lending limit of one percent or \$230,000. While the state-wide banks are considerably higher, restrictions are imposed on their local decision-making and loan authorities. These factors, combined with traditionally conservative banking practices, hamper efforts to overcome economic stagnation. Such limited resources force rural areas to seek financing outside the region, even to compete for funds in the major financial centers.

The Revolving Fund Concept

To alleviate the financial market imperfections in rural northern Vermont, the region's economic development district (EDD) established a locally controlled revolving loan fund (RLF). With \$500,000 in capitalization from the U.S. Department of Commerce, Economic Development Administration (EDA), the Economic Development Fund of Northern Vermont, Inc. (d.b.a. THE FUND) was created in mid-1980. THE FUND was designed to "round-out" the equity portion of a wide range of business loans and to supplement available local capital. With a loan committee of seven representing commerce, industry and finance, THE FUND established four key goals:

1. Increase the number and quality of job opportunities.
2. Reduce the incidence of seasonal employment
3. Develop the means for increasing family incomes
4. Establish opportunities for upgrading labor force skills.

In the three years since its inception, THE FUND has made significant progress toward achieving these goals. Its portfolio of loans represents a cross-section of the area economy and includes both private sector borrowers and local development corporations. THE FUND finances up to 20% of the project costs with a maximum lending limit of \$100,000. Applicants must certify that adequate financing is unavailable through normal channels on

*An Empirical Analysis of Capital Markets in Five U.S. Regions, First National Bank of Boston, Boston Massachusetts

terms that would accomplish the project. Loans are made only after a thorough review that indicates the project is a sound business venture, financially and economically feasible. Potential clients receive guidance and information from the RLF staff and often are referred to local professionals for specific expertise. The result is a carefully planned and timed investment which achieve the maximum benefit for both the investor and the RLF service area. THE FUND is not a substitute for other available financing; rather, it should be seen as the "glue" that binds together participants in otherwise difficult financing packages. It is a leveraging tool capable of expanding rural capital markets.

Investment Impact

The effect of THE FUND's investment in northern Vermont has been repeated in regions throughout rural America where EDA has helped establish revolving loan funds. The impact documented here by THE FUND just as easily could be repeated in scores of rural areas that currently lack access to capital markets.

INVESTMENT DATA June 1980 through March 1983

Total FUND Financing	780,820
Total Other Financing	5,469,628
Total FUND Equity Invest.	30,000
Total Other Equity	170,000
All FUND Investments	<u>810,820</u>
All Other Investments	<u>5,639,628</u>

Effective leveraging of nearly \$7 in private investment for each FUND dollar.

Total Documented Job Creation: 327 full-time
Total Documented Job Retention: 330 full-time

RLF Cost Per Job: \$1,188
Total Cost Per Job: \$9,514

Average Job Wage: \$5.34/hr.
or 143.6% of Minimum Wage

FUND investments in start-up operations have accounted for 13% of its loaned dollars; these new companies (all locally owned) have produced 97 jobs in the past two years. The remaining 87% has been invested in existing companies and development corporations; all are locally-owned and controlled. The needs of these businesses vary significantly, but nearly one-half (45%) of

the FUND's investments were used for working capital purposes. Historically, working capital is the most difficult form of financing to obtain in rural credit markets; the FUND's entrance into this field has had a positive impact on the financial community's willingness to participate in development loan packages. The average term of a working capital loan is 5.4 years with an average rate of 9.06%. For FUND borrowers, whose average assets total \$650,000, this resource is a critical factor in their continued viability and potential for expansion.

THE FUND's portfolio of loans and equity investments exhibits a commitment to strengthening regional industries. Its borrowers represent an increasingly diversified economic base of appropriate scale. The investments are spread throughout the six county service area with a concentration in four recognized centers of employment and commerce. Most borrowers utilize skills already available in the labor force, but 49% offer skills training programs. Twenty-eight percent of the FUND's investments have been made in companies that use indigenous raw materials in the manufacturing of exportable products. This value-added factor is extremely important in providing a rural area with maximum employment impact in exchange for its natural resources. FUND investments can be found in companies manufacturing a wide variety of products including: wood stoves, fencing, fiberglass cloth, minerals, dimension lumber, cosmetics, industrial bellows, air- and space-craft toolings, armaments parts, garden carts and pallets. Average time from application to approval is 17.75 days.

Response to Need

THE FUND (and revolving loan funds in general) is effective in its ability to respond to the business community's needs in a timely fashion with assistance tailored to individual problems and opportunities. The four examples below demonstrate this response capacity.

EXISTING - EXPANSION

An Orleans County cosmetics manufacturer, seeking to expand its operation through investment in new equipment and enlarged facilities, approached THE FUND in early 1981. The firm had obtained sufficient financing from area lending institutions for only 80% of its proposed project costs. With a nine year history of providing stable manufacturing employment, the company faced potential stagnation within its market unless new production facilities were constructed. Recognizing the social and financial value of the company's proposal, the FUND approved the remaining financing; within 20 days of submitting the application, the company received its loan approval and within sixty days construction was under way. The investment has resulted in a 40% increase in production and a permanent work force of 45.

EXISTING - RESCUE

In order to hold its competitive edge and market share, a specialty wood products company in northern Vermont expanded its facilities in 1981. The expansion depleted much of the firm's working capital leaving it unable to increase its raw lumber inventories and meet production demands. By linking the resources of THE FUND with an SBA-guaranteed restructuring of debt, the company was able to pull itself from the brink of disaster. THE FUND supplied a badly needed working capital injection to compliment locally obtained fixed asset financing. Within thirty days, the financial package was analyzed, approved and closed, enabling the company to continue its operation with only minimal down-time. The carefully structured package helped the firm retain its employees, support its independent loggers, and meet the market demand for its product. Within two months of the approval the firm's orders were 10% ahead of the previous year.

START-UP - OPPORTUNITY

After several years working with northern Vermont machine tool operations, two local entrepreneurs formed their own company specializing in contract machining. With seed capital from their personal assets, the two opened a small shop in a vacant industrial building. Using this equity investment as leverage, the firm designed a proposal for equipment purchases that would enable them to establish a permanent employee base and to compete for public and private machining contracts. By combining the resources of the local development corporation, two private financial institutions and THE FUND, the company was able to structure a phased program of investment. In the two years that followed, the company has moved into its own industrial park location, and the two-man shop now employs over 35 full time. It recently has begun planning for a related-function business which is expected to employ an additional thirty people. This start-up has been highly successful due, in large part, to the phased investment employed by the public/private partnership.

EQUITY - STIMULUS

When one of Northern Vermont's commercial centers was unable to attract new private investment to its downtown area, the local development corporation requested FUND assistance. A vacant commercial building in the heart of the downtown was a major cause of concern and had been identified as a reason for the area's decline. Forming a downtown development corporation of two financial institutions and three non-profits, THE FUND provided 20% of the needed equity investment to purchase and rehabilitate the building. With renovations scheduled to begin in thirty days, the project already has attracted the interest of two light manufacturing concerns and three retailers. The potential employment level of the facility is 60-70.

**American
Planning
Association**

Please reply to:

1776 Massachusetts Ave. NW
Washington, DC 20036
Phone 202.872.0611

1313 E. 60th St.
Chicago, IL 60637
Phone 312.947.2560

April 6, 1983

The Honorable John J. LaFalce
Chairman
Economic Stabilization Subcommittee
2220 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. LaFalce:

The American Planning Association wishes to go on record in support of HR 10, the National Development Investment Act.

The American Planning Association is a national organization of over 21,000 city, regional and state planners as well as elected and appointed officials, educators and interested citizens. The APA membership belongs to forty-six chapters in virtually every state and Congressional district. The Association's primary objective is to advance the planning function for the improved development of communities, cities, regions, states and the nation.

Our Association supports the National Development Investment Act for the same reasons it supported HR 6100 in the 97th Congress;

1. The bill takes a great leap forward in the process of defining a national economic development strategy, by recognizing two realities that have in the past been missed

- The criterion of poverty is not in and of itself a sufficient basis on which to entitle communities to long-term Federal economic development assistance, and
- Economic development assistance for the Federal government will be cost-effective only if there is a long-term local economic development strategy which that assistance will support.

2. HR 10 goes a long way towards the rethinking of the Federal role in economic development that is essential to the future economic stability of the nation as a whole. This whole is after all but the sum of the parts--and the parts that are economically self-sufficient communities. This bill clearly states that the Federal government has a responsibility to assist communities to achieve economic self-sufficiency and that business and government in those communities have an equal responsibility.

3. The bill recognizes the need for strategic planning and supports it. Our membership whether in government or in the private sector is well versed in the complexities of designing and implementing economic development and adjustment strategies. This is a long-term proposition, demanding daily efforts to negotiate, and requiring that firm commitments be secured in advance from all key parties--several levels of government, banks, investors, landowners and businessmen. Not only does the bill mandate such planning, but it provides funds to support it. Seventy-five million dollars per year earmarked for economic development planning will enable many distressed communities, which otherwise could not afford it, to analyze their economic potential and inventory their existing resources of land, labor, capital, and entrepreneurship. These activities are certainly the minimal requirements for integrating projects or activities funded by the Federal government with a long-range, comprehensive plan to gain economic self-sufficiency and to create jobs.

4. The bill abandons the "worst is first" approach to economic development. While a community must be distressed--that is, have low income, high unemployment, or declining population--to qualify for assistance, all such communities will not automatically qualify. The government--and therefore the taxpayers--will be looking properly for a return on investment. To evaluate proposed Federally funded projects on the basis of their contribution to a solution of an area's economic problems, as this Act proposes, is to introduce the measure of efficiency. This is a welcomed change from the Public Works and Economic Development Act of 1965, as amended, which qualified the vast majority of the nation's communities and which made few demands on the beneficiaries of Federal economic development assistance.

5. HR 10 gives teeth to economic development policy by changing the Federal share of the project cost from seventy-five percent to fifty percent. This places an appropriate burden on communities to demonstrate that they have the will and the wherewithal to help themselves. It challenges states to deal directly with local economic problems. It avoids the temptation that in many cases is almost irresistible, to take Federal monies to prop up dying organizations, which only stretches out the hardship period and postpones the inevitable.

6. Finally, it shifts the emphasis from building for the sake of building, to laying a base for economic development. The National Development Investment Act does this in two ways:

- By continuing the Federal government's vital role in financing roads, bridges, sewers, waterways, and water systems and other infrastructures; and

- By allowing an eligible locality to build on existing infrastructure by encouraging the formation of a capital pool for startup firms.

This combination of program activities will allow distressed communities that already have sufficient infrastructure to make good use of it.

It is our judgement that most communities seeking aid under this new Act will likely use it for infrastructure. The infrastructure problem is high on the list of priorities of APA's state and city members. The backlog of need to maintain and repair the nation's infrastructure is in the hundreds of millions of dollars. One of the chief accomplishments of the National Development Investment Act would be to assist communities to ward off disaster by shoring up bridges or tunnels, cleaning up the water supply, or building new sewer systems. Moreover, the fifty percent match requirement will help communities make a commitment of their own; also, the limitation on total expenditure allowed per state to fifteen percent of total appropriations, provides an element of equity.

If you have any questions on our position, please do not hesitate to contact George T. Marcou, AICP, APA's Director of National Planning Policy, or Nancy P. Schamberg, AICP, Government Affairs Coordinator, at 202-872-0611.

Sincerely,



Fred Bosselman, AICP
President

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